

## **Bank SinoPac**

**Financial Statements for the  
Nine Months Ended September 30, 2006 and 2005 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Stockholders  
Bank SinoPac

We have reviewed the accompanying balance sheets of Bank SinoPac as of September 30, 2006 and 2005, and the related statements of income, and cash flows for the nine months then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" in the Republic of China except that described in the next paragraph. A review of interim financial statements consists primarily of applying analytical procedures, comparisons and making inquiries. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 12 to the financial statements, the carrying amount of the equity investments accounted for by the equity method as of September 30, 2005 amounted to NT\$1,063,580 thousand, the related investment income for the nine months then ended amounted to NT\$30,721 thousand, and additional disclosures about investees stated in Note 35 to the financial statements are based on the investees' unreviewed financial statements.

Based on our reviews, except for the effects of such adjustments, if any, as might have been required had the financial statements mentioned in the third paragraph been reviewed by independent accountants, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Criteria Governing the Preparation of Financial Reports by Public Banks and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, effective January 1, 2006, the Bank adopted the Statement of Financial Accounting Standards No. 34 “Accounting for Financial Instruments”, No. 36 “Disclosure and Presentation of Financial Instruments” and other standards amended for harmonizing with those two standards.

October 24, 2006

Notice to Readers

*The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the accountants’ review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants’ review report and financial statements shall prevail.*

# BANK SINOPAC

## BALANCE SHEETS

SEPTEMBER 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2006	2005	%	LIABILITIES AND STOCKHOLDERS' EQUITY	2006	2005	%
	Amount	Amount			Amount	Amount	
CASH AND CASH EQUIVALENTS (Note 4)	\$ 9,751,063	\$ 6,800,913	43	CALL LOANS AND DUE TO BANKS (Note 16)	\$ 56,316,295	\$ 46,142,619	22
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 25)	50,638,312	48,901,501	4	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6 and 28)	3,078,942	1,269,835	142
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6, 25 and 28)	28,937,682	14,234,036	103	SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 2, 25 and 26)	6,853,864	8,834,637	(22)
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 2 and 26)	4,288,704	5,390,327	(20)	ACCOUNTS, INTEREST AND OTHER PAYABLES (Notes 2 and 17)	22,021,371	12,406,976	77
ACCOUNTS, INTEREST AND OTHER RECEIVABLES, NET (Notes 2, 3, 7, 23 and 25)	36,995,795	22,893,089	62	DEPOSITS AND REMITTANCES (Notes 18 and 25)	426,537,611	352,604,283	21
DISCOUNTS AND LOANS, NET (Notes 2, 8, 25 and 28)	308,088,524	289,747,427	6	BANK DEBENTURES (Notes 2 and 19)	36,010,888	32,800,000	10
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 3, 9, 10 and 28)	124,476,391	77,207,890	61	OTHER FINANCIAL LIABILITIES (Notes 2 and 28)	449,687	121,250	271
HELD-TO-MATURITY INVESTMENTS (Notes 2, 3, 11, 25 and 28)	985,264	2,161,213	(54)	DEFERRED TAX LIABILITIES (Notes 2 and 23)	816,163	594,904	37
EQUITY INVESTMENTS - EQUITY METHOD (Notes 2, 12 and 28)	8,533,085	8,842,842	(4)	OTHER LIABILITIES (Notes 2, 3, 22 and 28)	<u>396,627</u>	<u>965,662</u>	(59)
OTHER FINANCIAL ASSETS, NET				Total liabilities	<u>552,481,448</u>	<u>455,740,166</u>	
Unquoted equity instruments (Notes 2, 3, 13 and 28)	172,922	358,074	(52)	STOCKHOLDERS' EQUITY (Notes 2, 3 and 20)			
Non-active market debt instruments (Notes 2, 3, 13 and 28)	1,834,890	117,983	1,455	Capital stock, \$10 par value			
Others (Notes 13 and 28)	<u>692,045</u>	<u>155,275</u>	346	Authorized (shares in thousand) - 8,000,000 and 1,972,807 as of September 30, 2006 and 2005, respectively			
Other financial assets, net	<u>2,699,857</u>	<u>631,332</u>		Issued (shares in thousand) - 1,972,807	<u>19,728,068</u>	<u>19,728,068</u>	-
PROPERTIES (Notes 2, 14 and 21)				Capital surplus			
Cost				Additional paid-in capital	118,226	118,226	-
Land	2,010,392	2,007,731	-	Donated capital	83	83	-
Buildings	2,343,534	2,275,880	3	Other	<u>95</u>	<u>1,948</u>	(95)
Computer equipment	1,452,817	1,431,818	1	Total capital surplus	<u>118,404</u>	<u>120,257</u>	
Transportation equipment	37,566	43,598	(14)	Retained earnings			
Office and other equipment	<u>1,652,392</u>	<u>1,450,636</u>	14	Legal reserve	6,280,113	5,782,921	9
	7,496,701	7,209,663		Special reserve	282,977	282,977	-
Less: Accumulated depreciation	<u>(2,790,689)</u>	<u>(2,498,531)</u>	12	Unappropriated	<u>2,860,514</u>	<u>2,077,726</u>	38
	4,706,012	4,711,132		Total retained earnings	<u>9,423,604</u>	<u>8,143,624</u>	
Advances on acquisitions of equipment and construction in progress	<u>75,650</u>	<u>253,899</u>	(70)	Cumulative translation adjustments	<u>44,583</u>	<u>95,568</u>	(53)
Net properties	<u>4,781,662</u>	<u>4,965,031</u>		Unrealized loss on available-for-sale financial assets	<u>(43,132)</u>	<u>-</u>	-
OTHER ASSETS (Notes 2, 3, 15 and 23)	<u>1,576,636</u>	<u>1,766,472</u>	(11)	Other adjustments	<u>-</u>	<u>(285,610)</u>	100
TOTAL	<u>\$ 581,752,975</u>	<u>\$ 483,542,073</u>		Total stockholders' equity	<u>29,271,527</u>	<u>27,801,907</u>	
				CONTINGENCIES AND COMMITMENTS (Notes 2, 26 and 28)			
				TOTAL	<u>\$ 581,752,975</u>	<u>\$ 483,542,073</u>	

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated October 24, 2006)

# BANK SINOPAC

## STATEMENTS OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	<u>2006</u>	<u>2005</u>	
	Amount	Amount	%
INTEREST REVENUE (Notes 2 and 3)	\$ 16,129,565	\$ 11,852,240	36
INTEREST EXPENSE	<u>10,704,939</u>	<u>7,028,532</u>	52
NET INTEREST	<u>5,424,626</u>	<u>4,823,708</u>	
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues, net (Notes 2 and 25)	1,287,225	1,345,299	(4)
Gains (losses) from financial assets and liabilities at fair value through profit or loss (Note 3)	260,931	(767,631)	134
Realized gains from available-for-sale financial assets	12,261	-	-
Realized gains from held-to-maturity investments (Note 3)	-	1,469	(100)
Income from equity investments - equity method (Notes 2 and 12)	673,561	403,009	67
Foreign exchange gains, net (Note 2)	182,624	1,520,704	(88)
Other provision - banking industry	(39,752)	-	-
Gains from unquoted equity instruments	34,948	3,625	864
Other net revenues (Note 3)	<u>117,556</u>	<u>128,118</u>	(8)
Total net revenues	<u>7,953,980</u>	<u>7,458,301</u>	
PROVISION FOR LOAN LOSSES	<u>840,248</u>	<u>480,107</u>	
OPERATING EXPENSES (Note 2)			
Personnel expenses (Notes 21 and 22)	2,333,517	2,272,956	3
Depreciation and amortization (Note 21)	348,785	348,881	-
Others	<u>1,326,897</u>	<u>1,341,360</u>	(1)
Total operating expenses	<u>4,009,199</u>	<u>3,963,197</u>	
INCOME BEFORE INCOME TAX	3,104,533	3,014,997	3
INCOME TAX EXPENSE (Notes 2 and 23)	<u>493,086</u>	<u>477,413</u>	
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	2,611,447	2,537,584	
CUMULATIVE EFFECT OF ACCOUNTING CHANGES (NET OF TAX BENEFIT \$17,232) (Note 3)	<u>249,067</u>	<u>-</u>	-
NET INCOME	<u>\$ 2,860,514</u>	<u>\$ 2,537,584</u>	

(Continued)

# BANK SINOPAC

## STATEMENTS OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

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	<u>2006</u>		<u>2005</u>	
	<b>Pretax</b>	<b>After Tax</b>	<b>Pretax</b>	<b>After Tax</b>
EARNINGS PER SHARE (Note 24)				
Basic earnings per share	<u>\$ 1.69</u>	<u>\$ 1.45</u>	<u>\$ 1.46</u>	<u>\$ 1.22</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated October 24, 2006)

(Concluded)

# BANK SINOPAC

## STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,860,514	\$ 2,537,584
Cumulative effect of accounting changes	(249,067)	-
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	345,840	350,479
Amortization on discount of held-to-maturity financial assets	3,386	9,188
Provision for credit and trading losses	880,390	481,075
(Reversal of) provision for allowance for decline in market value of collaterals assumed	(33)	34,451
Unrealized (gain) loss on financial assets and liabilities at fair value through profit or loss	(45,272)	615,878
Accrued pension cost	14,529	18,959
Income from equity investments - equity method	(673,561)	(403,009)
Cash dividend from equity investments equity method	-	272
Loss on disposal of properties, net	5,325	3,218
Properties expensed	1,042	-
Gains on sale of unquoted equity instruments	(25,597)	-
Impairment of unquoted equity instruments	5,532	17,000
Gain on disposal of collateral assumed, net	(792)	(31,061)
Deferred income tax	222,395	22,394
Decrease in held for trading financial assets	630,246	9,987,492
Increase (decrease) in held for trading financial liabilities	1,580,008	(1,317,286)
(Increase) decrease in accounts, interest and other receivables	(10,438,104)	7,162,434
Increase (decrease) in accounts, interest and other payables	<u>6,578,441</u>	<u>(5,698,759)</u>
Net cash provided by operating activities	<u>1,695,222</u>	<u>13,790,309</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in due from the Central Bank and other banks	25,836,921	(12,937,152)
Decrease in securities purchased under agreements to resell	1,560,556	12,044,293
Decrease in financial assets designated at fair value through profit or loss	2,111,042	1,136,753
(Increase) decrease in non-active market debt instruments	(1,126,808)	43,537
Increase in discounts and loans	(6,647,538)	(29,523,936)
Acquisition of properties	(160,144)	(471,722)
Proceeds from sale of properties	168	493
Increase in available-for-sale financial assets	(68,812,318)	(4,907,649)
Increase in held-to-maturity financial assets	(413,934)	(481,947)
Proceeds received from held-to-maturity financial assets matured	1,011,943	159,585
Increase in unquoted equity investments	(164)	-
Proceeds from sale of unquoted equity instruments	125,597	-
Acquisition of collateral assumed	(2,812)	(40,840)
Proceeds from sale of collateral assumed	76,320	245,410

(Continued)

# BANK SINOPAC

## STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
Increase in other financial assets	\$ (119,396)	\$ (69,533)
Increase in other assets	<u>(193,102)</u>	<u>(85,048)</u>
Net cash used in investing activities	<u>(46,753,669)</u>	<u>(34,887,756)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in call loans and due to banks	18,946,550	3,039,678
Decrease in securities sold under agreements to repurchase	(2,586,404)	(9,440,203)
Increase in deposits and remittances	31,884,689	27,187,515
Decrease in other financial liabilities	(6,808)	(114,481)
(Decrease) increase in other liabilities	(409,586)	173,400
Bonus to employees	(11,601)	(24,900)
Cash dividends paid	(1,116,514)	(1,419,416)
Remuneration to directors and supervisors	<u>(32,000)</u>	<u>(26,847)</u>
Net cash provided by financing activities	<u>46,668,326</u>	<u>19,374,746</u>
EFFECTS OF CHANGES IN EXCHANGE RATE	1,348	(2,597)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,611,227	(1,725,298)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>8,139,836</u>	<u>8,526,211</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 9,751,063</u>	<u>\$ 6,800,913</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ 9,915,258</u>	<u>\$ 6,292,911</u>
Income tax paid	<u>\$ 436,255</u>	<u>\$ 461,373</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated October 24, 2006)

(Concluded)

# **BANK SINOPAC**

## **NOTES TO FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Unless Otherwise Stated) (Reviewed, Not Audited)**

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### **1. ORGANIZATION AND OPERATIONS**

Bank SinoPac (the “Bank”) obtained government approval to incorporate on August 8, 1991 and started operations on January 28, 1992. The Bank engages in commercial banking, trust, and established International Division and Offshore Banking Unit (OBU) to manage foreign exchange operations as allowed under the Banking Law.

As of September 30, 2006 and 2005, the Bank had a total of 2,234 and 2,176 employees, respectively.

As of September 30, 2006, the Bank’s operating units included Banking, Trust, International Division of the Head Office, an Offshore Banking Unit (OBU), 44 domestic branches, 2 overseas branches and 1 overseas representative office.

The operations of the Bank’s Trust Department consist of: (1) planning, managing and operating of trust business; and (2) custody of non-discretionary trust fund in domestic and overseas securities and mutual funds. These operations are governed by the Banking Law and the Trust Law.

Under the Financial Holding Company Act, the Bank, SinoPac Securities Corporation and SinoPac Securities Co., Ltd. (the “SPS”) established SinoPac Financial Holdings Company Limited (the “SPH”), a financial holding company. The parties established the holding company to maximize the benefit of their combined capital, pool their business channels, fully harness the synergy of their diversified business operations and establish one of the most competitive organizations in the Pacific Rim. Since May 9, 2002, the effective date of the shares swap, the Bank has become an unlisted wholly owned subsidiary of SPH.

On July 21, 2006, the boards of directors of the Bank resolved a merger with International Bank of Taipei Co., Ltd. (IBT) in order to boost the operating performance through cross selling of pooling business channels, as well as harnessing the synergy of integration of diversified business operations. Under this merger, the Bank will acquire the assets and liabilities of IBT through a share swap at ratio of 1.175 shares of the Bank to swap for 1 share of IBT, on which the Bank will be the surviving entity and IBT will be the company ceasing to exist. The preliminary effective date of the share swap and merger’s recording date will be November 13, 2006.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bank’s financial statements were prepared in conformity with Criteria Governing the Preparation of Financial Reports by Public Banks and accounting principles generally accepted in the Republic of China (ROC). In determining the fair value of certain financial assets, allowance for credit losses, depreciation, assets impairment, pension, income tax, losses upon suspended lawsuit and provision for losses on guarantees, the Bank needs to make estimates based on judgment and available information. The estimates were usually made under uncertain conditions, actual results could differ from those estimates. Since the operating cycle could not be reasonably identified in the banking industry, accounts included in the Bank’s financial statements were not classified as current or non-current. Nevertheless, accounts were properly categorized according to the nature of each account, and sequenced by their liquidity. Please refer to Note 28 for maturity analysis of assets and liabilities. Significant accounting policies of the Bank are summarized below:

## **Basis of Financial Statement Preparation**

The accompanying financial statements include the accounts of the Head Office, OBU, all branches and the representative office. All interoffice transactions and balances have been eliminated.

## **Financial Instruments at Fair Value Through Profit or Loss**

Financial instruments at fair value through profit or loss consist of any financial asset and liability that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss and financial assets and liabilities which should be classified as held for trading. Those instruments are required to be recognized at fair value and to be measured at fair value through profit or loss on the balance sheet date. The Bank uses trade date accounting when recording transaction.

Derivative instruments transaction which do not meet the specified criteria to obtain hedge accounting treatment are classified as financial assets or liabilities held for trading when the fair value of a derivative is positive, it is carried as an asset and while negative as a liability.

Fair value are determined as follows: (a) listed stocks and GreTai Securities Market (the "GTSM") stocks - closing prices as of the balance sheet date; (b) beneficiary certificates (open-end fund) - net asset values as of the balance sheet dates; (c) bonds - period-end reference prices published by the GTSM or Bloomberg; and (d) for the financial instruments without active markets, fair value is determined using valuation techniques.

Any financial asset and any financial liability may be designated as financial instruments at fair value through profit or loss to eliminate measurement anomalies for items that provide a natural offset of each other. Besides, the set of financial assets, financial liabilities or combined by both of them managed according to the Bank's risk management policies and investment strategies will be designated as financial instruments at fair value through profit or loss.

## **Repurchase and Reverse Repurchase Transactions**

Securities purchased under agreement to resell (reverse repurchase) agreements and securities sold under agreements to repurchase are generally treated as collateralized financing transactions. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

## **Available-for-sale Financial Assets**

Available-for-sale financial assets are carried at fair value. Unrealized gains or losses on available-for-sale financial assets are reported in equity attribute to the Bank's shareholders. On disposal of an available-for-sale financial asset, the accumulated, unrealized gain or loss in equity attributable to the Bank's shareholders is transferred to net profit and loss for the period. The Bank uses trade date accounting when recording available-for-sale portfolio transactions.

Dividend income from equity securities is recognized on ex-dividend dates. Cash dividends received a year after investment acquisition are recognized as income, otherwise as a reduction of the carrying value of the investments. The effective interest rate method of amortization and accretion is used, the straight line method is used if there is no significant difference.

If an available-for-sale financial asset is determined to be impaired, the accumulative unrealized loss previously recognized in equity attributable to the Bank shareholders is recognized as impairment loss and reported in income statement. For equity investments, loss reversal is adjusted to the equity attributable to the Bank shareholders. For debt investments, loss reversal is credited to current income.

## **Nonperforming Loans**

Under guidelines issued by the Banking Bureau of Financial Supervisory Commission (the Banking Bureau), the balance of loans and other credits extended by the Bank and the related accrued interest thereon are classified as nonperforming when the loan is overdue and shall be authorized by a resolution passed by the board of directors.

Nonperforming loans reclassified from loans are classified as discounts and loans; otherwise, are classified as other financial assets.

## **Allowance for Credit Losses and Provision for Losses on Guarantees**

In determining the allowance for credit losses and provision for losses on guarantees, the Bank assesses the collectibility on the balances of discounts and loans, accounts receivables, interest receivables, other receivables, nonperforming loans, and other financial assets, as well as guarantees and acceptances as of the balance sheet dates.

Pursuant to “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” (the “Regulations”) issued by the Banking Bureau, the Bank evaluates credit losses on the basis of its borrowers’/clients’ financial positions, repayments for principal and interest by borrowers/clients, collateral provided, and estimated collectibility.

In accordance with the Regulations stated above, the minimum provision for credit losses should not be less than the aggregate of 50% of the doubtful credits and 100% of the unrecoverable credits. Since July 2005, the Regulations amended the classification of loan assets, which divided the loan assets into different class subjects to assets that require special mention, assets that are substandard, assets that are doubtful, and assets for which there is loss. The minimum allowance for credit losses and provision for losses on guarantees for the aforementioned classes should be 2%, 10%, 50% and 100% of outstanding credits, respectively. The amendments on the classification of loan assets have no significant impact on the Bank’s financial statements.

Write-offs of loans falling under the Banking Bureau guidelines, upon approval by the board of directors, are offset against the recorded allowance for credit losses.

## **Held-to-maturity Investments**

Held-to-maturity investments are carried at amortized cost, which are valued by interest method, otherwise use the straight line method if there is no significant difference. At initial recognition, the costs of the financial assets are valued at fair value of the financial assets together with acquire or issue costs. The net profit and loss of the held-to-maturity investments for the period are reported in to income statement when on disposal, impairment or amortization. The Bank uses trade date accounting when recording transaction.

If a held-to-maturity financial asset is determined to be impaired, the impairment loss is recognized and reported in income statement. For equity investments, loss reversal is adjusted to the equity attributable to the Bank’s shareholders. For debt investments, loss reversal is credited to current income.

## **Equity Investments - Equity Method**

Equity investments are accounted for by the equity method if the Bank has significant influence over the investees. Under this method, investments are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in net worth of the investees. Goodwill is not amortized but test annually for impairment since January 1, 2006. Until December 31, 2005, any difference between the acquisition cost and the equity in the investee is amortized over 15 years. Stock dividends result only in an increase in number of shares and are not recognized as investment income.

If an investee issues new shares and the Bank does not acquire new shares in proportion to its current equity in the investee, the resulting increase of the Bank's equity in the investee's net asset is credited to capital surplus. Any decrease of the Bank's equity in the investee's net asset is debited to capital surplus. If capital surplus is not enough for the debiting purpose, the remaining is debited to unappropriated retained earnings.

### **Financial Asset Securitization**

Under the "Regulations for Financial Asset Securitization", the Bank securitized part of its enterprise loans and entrusted those loans to the commissioned organization for the issuance of the related beneficiary certificates. Thus, the Bank derecognizes the loans and records gain or loss because the control of contractual rights - except for subordinated retained interests for credit enhancement, which were reclassified as available-for-sale financial assets - on the loans has been surrendered and transferred to a special purpose trustee.

The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The previous carrying amount of the loans should be allocated by applying the ratios of the retained subordinated beneficiary certificates and the part sold to their fair values on the date of sale. Because quotes are not available for loans and retained subordinated beneficiary certificates, the Bank estimates fair value at the present value of expected future cash flows, using management's key assumptions on credit losses and discount rates commensurate to the risks involved.

Subordinated beneficiary certificates - retained interest of securitization are accounted for as available-for-sale financial assets. Interest revenue is recorded when received. The Bank evaluates retained interests by estimating present value of expected future cash flows, the difference will be recognized under stockholders' equity. If the substantive period the impairment is obviously related to the subject occurred after the recognition of impairment, the difference will be reversed and recognized as current income or loss. However, the book value with the reversal amount must not exceed the amortized cost without recognizing the loss.

### **Properties**

Properties are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred.

Upon sale or disposal of properties, their cost and related accumulated depreciation are removed from the accounts. Any resulting gain (loss) is credited (charged) to current income.

Depreciation is calculated by the straight-line method on the basis of service lives initially estimated as follows: buildings, 6 to 55 years; computer equipment, 3 to 5 years; transportation equipment, 5 years; and office and other equipment, 5 to 15 years. For assets still in use beyond their original estimated service lives, further depreciation is calculated on the basis of any remaining salvage value and the estimated additional service lives.

### **Collaterals Assumed**

Collaterals assumed are recorded at cost (included in other assets) and revalued at the lower of cost or net fair value on the balance sheet dates, and resulting loss is charged to current income.

### **Other Financial Assets**

Non-active market debt instruments are those which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Non-active market debt instruments are carried at amortized cost. The accounting treatment of non-active market debt instruments is similar to the one of held-to maturity investments but there's no prohibition on sale of non-active market debt instruments.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measure, are measured at cost. If there is objective evidence that a financial asset is impaired, an impairment loss is recognized and reversal of impairment loss is prohibited.

### **Derivative Financial Instruments**

a. Foreign exchange forward

Foreign-currency assets and liabilities arising from forward exchange contracts, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded at the contracted forward rates. Gains or losses arising from the differences between the contracted forward rates and spot rates on settlement are credited or charged to current income. Contracts outstanding on the balance sheet dates are measured at fair value through profit or loss.

b. Forward rate agreements

Forward rate agreements, which are mainly for accommodating customers' needs or managing the Bank's interest rate positions, are recorded by memorandum entries at the contract dates. Gains or losses arising from the differences between the contracted interest rates and actual interest rates upon settlement are credited or charged to current income. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

c. Currency swaps

Foreign-currency spot-position assets or liabilities arising from currency swaps, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded at spot rates when the transactions occur; while corresponding forward-position assets or liabilities are recorded at the contracted forward rates, with receivables netted against the related payables. The interest part of swap points is amortized during the contract period. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

d. Cross-currency swaps

Cross-currency swaps, which are for the purposes of accommodating customers' needs or managing the Bank's exposures, are marked to market on the balance sheet dates. The interest received or paid at each settlement date is recognized as interest income or expense, which is credited or charged to current income. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

e. Options

Options bought and/or held and options written, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded as assets and liabilities when the transactions occur. These instruments are marked to market as of the balance sheet dates. The carrying amounts of the instruments, which are recorded either as assets or liabilities, are charged to income when they are not exercised. Gains or losses on the exercise of options are also included in current income.

f. Interest rate swaps

Interest rate swaps, which do not involve exchanges of the notional principals, are not recognized as either assets and/or liabilities on the contract dates. The swaps are entered into for accommodating customers' needs or managing the Bank's interest rate positions. The interest received or paid at each settlement date is recognized as interest income or expense. These instruments are marked to market on the balance sheet dates.

g. Asset swaps

Asset swaps involve exchanging the fixed interest of convertible bonds or fixed rate notes for floating interest. In addition, asset swaps involve exchanging the fixed or floating interest of credit link notes for floating or fixed interest. These transactions are recorded by memorandum entries at the contract dates. Net interest on each settlement is recorded as current income or expense. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

h. Futures

Margin deposits paid by the Bank for interest rate futures contracts entered into for trading purpose are recognized as assets. Gains or losses resulting from marking to market and from the settlement of the interest rate futures contracts are classified as realized or unrealized gains or losses depending on whether the gains or losses had been realized. The gains and losses are included in current income.

i. Credit default swaps

Credit default swaps involve taking credit the risk of denominated bonds and notes. Such transactions are recorded by memorandum entries at the contract dates. The premium received by the Bank for a credit default swap contract on each settlement is recorded as current income by the accrual method. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

j. Commodity - linked and equity - linked interest rate swaps

Commodity - linked and equity - linked interest rate swaps, which do not involve exchanges of notional principals, are recorded by memorandum entries at the contract dates. The gains and losses resulting from the swapped-in and swapped-out are included in current income on the settlement dates. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

### **Recognition of Interest Revenue and Service Fees**

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection.

Under the Ministry of Finance (MOF) regulations, the interest revenue on credits in which agreements have been reached to extend their maturities is recognized upon collection.

Service fees are recorded as revenue upon receipt or substantial completion of activities involved in the earnings process.

### **Pension**

Pension expense under defined benefit pension plan is determined on the basis of actuarial calculations. Pension under defined contribution pension plan is expensed during the period when the employees rendered their services.

### **Income Tax**

Inter-period income tax allocation is applied, in which tax effects of deductible temporary differences unused loss carryforward and unused investment tax credits are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Tax credits for acquisitions of equipment or technology, research and development expenditures, personnel training expenditures and acquisition of equity investments are recognized as reduction of current income tax.

Adjustments of prior years' tax liabilities are included in the current year's tax expense.

Income tax (10%) on unappropriated earnings after January 1, 1998 is recorded as income tax in the year when the stockholders resolve the appropriation of the earnings.

SPH adopted the linked-tax system for income tax filings with its qualified subsidiaries, including the Bank, since 2003. The different amounts between tax expense and deferred tax liabilities and assets based on consolidation and SPH with its qualified subsidiaries are adjusted on SPH, related amounts are recognized as accounts receivable or accounts payable.

### **Asset Impairment**

The Bank began applying ROC Statement of Financial Accounting Standards (SFAS) No. 35, "Accounting for Asset Impairment," on January 1, 2005, which requires that cash-generating units (CGUs) and certain assets, including investments accounted for by the equity method, properties, goodwill, etc., be subject to an impairment review.

SFAS No. 35 requires the impairment review on long-term investments accounted for by the equity method and properties to be made on each balance sheet date. If assets or CGUs are deemed impaired, then the Bank must calculate their recoverable amounts. An impairment loss should be recognized whenever the recoverable amount of the assets or the CGUs is below the carrying amount, and this impairment loss either is charged to accumulated impairment or reduces the carrying amount of the assets or CGUs directly. After the recognition of an impairment loss, the depreciation (amortization) should be adjusted in future periods by the revised asset/CGUs carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate goodwill impairment. Impairment is recorded if the book value exceeds value in use. The increase in the recoverable amount of goodwill in the period following the recognition of an impairment loss is likely to be an increase in internally generated goodwill rather than the reversal of the impairment loss recognized for the acquired goodwill. Thus, reversal of impairment loss on goodwill is prohibited.

### **Contingencies**

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the amount of the loss cannot be reasonably estimated or the loss is possible, the related information is disclosed in the financial statements.

### **Foreign-currency Translations**

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars equivalents using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For a non-monetary financial asset classified as held for trading, unrealized exchange differences are recognized in the income statement. For non-monetary financial investments, which are classified as available-for-sale, unrealized exchange differences are recorded directly in equity until the asset is sold or becomes impaired. Except for the initial investment cost, gains or losses resulting from restatement at period-end of foreign-currency denominated equity investments accounted for by the equity method are credited or charged to “cumulative translation adjustment” under stockholders’ equity.

### **Hedge Accounting**

Non-trading derivatives, which are used primarily as a risk management tool for hedging interest rate risk arising on on-balance sheet liabilities, are accounted for on the same basis as the underlying items being hedged.

In order to qualify as a hedge, a derivative must effectively reduce any risk inherent in the hedged item from potential movements in interest rates, exchange rates and market values. Changes in the fair value of the derivative must be highly correlated with changes in the fair value of the underlying hedged item over the life of the hedged contract. At the inception of the hedge, there must be formal designation and documentation of the hedging relationship, the Bank’s risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged items, overall risk management objectives and strategies and how the entity will assess the hedging instrument’s effectiveness.

A fair value hedge that meets all the hedge accounting criteria is accounted for as follows:

- a. The gain or loss from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount (for a non-derivative hedging instrument) is recognised immediately in profit or loss, and
- b. The carrying amount of the hedged item is adjusted through profit or loss for the corresponding gain or loss attributable to the hedged risk.

### **Reclassifications**

Certain 2005 accounts have been reclassified to conform to the 2006 financial statements presentation.

## **3. ACCOUNTING CHANGES**

Effective January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 “Accounting for Financial Instruments”, No. 36 “Disclosure and Presentation of Financial Instruments” and other standards amended for harmonizing with those two standards.

- a. The amount of the cumulative effect resulting from the change to new accounting principles

The Bank properly reclassifies the financial assets and financial liabilities when adopting aforementioned new accounting standards and related amendments to existing standards. The effects of the financial assets and liabilities at fair value through profit or loss and derivative of fair value hedge are included in cumulative effect of accounting changes. The effects of the fair value change of available-for-sale financial assets are included in stockholders’ equity adjustments.

The cumulative effect of accounting changes are as follows:

	<b>Cumulative Effect of Accounting Changes, After Tax</b>	<b>Stockholders' Equity Adjustments, After Tax</b>
Financial assets at fair value through profit or loss	\$ 699,229	\$ -
Available-for-sale financial assets	-	(89,113)
Financial liabilities at fair value through profit or loss	<u>(450,162)</u>	<u>-</u>
	<u>\$ 249,067</u>	<u>\$ (89,113)</u>

b. Reclassification

Under an explanation issued by ARDF of R.O.C., when the Bank adopts Statement of Financial Accounting Standard No. 34 effective on January 1, 2006, the Bank needs to reclassify the comparative financial statements for the year ended 2005 instead of restating. The Bank shall state the different valuation method in the notes to the financial statements.

The different valuation method of financial instruments the Bank applies are summarized as follows:

1) Securities purchased

Securities which are acquired principally for the purpose of sale in the near term are stated at the lower of cost or market value. Market prices are determined as follows: (a) listed stocks - average daily closing prices for the last month of the accounting period and; (b) GTSM stocks - average daily closing prices for the last month of the accounting period, published by GTSM.

2) Long-term investments

Long-term equity investments are accounted for by the cost method if the Bank does not have significant influence over the investees. For listed and GTSM stocks accounted for by the cost method, when the aggregate market value is lower than the total carrying amount, an allowance for decline in market value is provided and the unrealized loss is charged against stockholders' equity. If a decline in the value of an unlisted stock investment is considered as permanent loss, the decline is charged to current income.

3) Foreign exchange forward

Foreign-currency assets and liabilities arising from forward exchange contracts, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded at the contracted forward rates. Gains or losses arising from the differences between the contracted forward rates and spot rates on settlement are credited or charged to current income. For contracts outstanding on the balance sheet dates, the gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current income. Receivables arising from forward exchange contracts are offset against related payables on the balance sheet dates.

4) Forward rate agreements

Forward rate agreements, which are mainly for accommodating customers' needs or managing the Bank's interest rate positions, are recorded by memorandum entries at the contract dates. Gains or losses arising from the differences between the contracted interest rates and actual interest rates upon settlement or on the balance sheet dates are credited or charged to current income.

5) Cross-currency swaps

Cross-currency swaps, which are for the purposes of accommodating customers' needs or managing the Bank's exposures, are marked to market on the balance sheet dates. The interest received or paid at each settlement date or balance sheet date is recognized as interest income or expense, which is credited or charged to current income.

6) Asset swaps

Asset swaps involve exchanging the fixed interest of convertible bonds or fixed rate notes for floating interest. In addition, asset swaps involve exchanging the fixed or floating interest of credit link notes for floating or fixed interest. These transactions are recorded by memorandum entries at the contract dates. Asset swaps are entered into for hedging purposes; they are used to hedge interest rate exposure in convertible bonds, fixed rate notes and credit link notes denominated in foreign currency. Net interest on each settlement or balance sheet date is recorded as an adjustment to interest income or expense associated with the bonds or notes being hedged.

Certain 2005 accounts have been reclassified to conform 2006 financial statements presentation and new accounting standards' requirement:

	<u>September 30, 2005</u>	
	<b>Before</b>	<b>After</b>
	<b>Reclassification</b>	<b>Reclassification</b>
<u>Balance sheets</u>		
Securities purchased	\$ 88,013,614	\$ -
Accounts, interest and other receivables, net	1,863,571	-
Long-term equity investments - cost method, net	998,832	-
Other long-term investments	1,094,300	-
Financial assets at fair value through profit or loss	-	14,234,036
Available-for-sale financial assets	-	77,207,890
Held-to-maturity investments	-	2,161,213
Non-active market debt instruments	-	117,983
Unquoted equity instruments	-	358,074
Other assets	2,108,879	-
Other liabilities - others	1,171,231	-
Securities purchased under agreement to resell	98,604	-
Financial liabilities at fair value through profit or loss	-	1,269,835
	<u>\$ 95,349,031</u>	<u>\$ 95,349,031</u>

	<b>For the Nine Month Ended September 30, 2005</b>	
	<b>Before Reclassification</b>	<b>After Reclassification</b>
<u>Income statement</u>		
Interest revenue	\$ 11,214,634	\$ 11,852,240
Loss on derivative financial instruments transactions	(999,851)	-
Income from securities, net	884,086	-
Loss from financial assets and liabilities at fair value through profit or loss	-	(767,631)
Realized gain from held-to-maturity investments	-	1,469
Other net revenues	-	12,791
	<u>\$ 11,098,869</u>	<u>\$ 11,098,869</u>

#### 4. CASH AND CASH EQUIVALENTS

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Due from other banks	\$ 6,313,246	\$ 4,432,644
Cash on hand	2,033,052	1,710,010
Notes and checks in clearing	<u>1,404,765</u>	<u>658,259</u>
	<u>\$ 9,751,063</u>	<u>\$ 6,800,913</u>

#### 5. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Call loans to banks	\$ 38,278,256	\$ 37,814,850
Due from the Central Bank	<u>12,360,056</u>	<u>11,086,651</u>
	<u>\$ 50,638,312</u>	<u>\$ 48,901,501</u>

Due from the Central Bank consists mainly of New Taiwan Dollar (NTD) and foreign currency deposit reserves.

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included \$8,899,029 and \$7,716,183 as of September 30, 2006 and 2005, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These reserve may be withdrawn momentarily and are noninterest earning. As of September 30, 2006 and 2005, the balances of foreign-currency deposit reserves were \$82,745 and \$49,782, respectively.

## 6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Held for trading financial assets</u>		
Corporate bonds	\$ 10,135,821	\$ 5,775,809
Commercial papers	6,265,215	-
Forward contracts	2,509,701	1,973,661
Bank debentures	1,959,206	165,940
Government bonds	1,847,563	263,775
Negotiable certificates of deposit	1,205,093	-
Beneficiary certificates	1,013,466	1,222,575
Interest rate swap contracts	979,895	1,905
Assets based securities	734,832	811,677
Structured instruments	667,315	146,799
Premium paid on option contracts	606,421	1,127,418
Listed stock	<u>458,677</u>	<u>421,317</u>
	<u>28,383,205</u>	<u>11,910,876</u>
<u>Financial assets designated at fair value through profit or loss</u>		
Corporate bonds	387,487	-
Credit linked notes	165,987	2,323,160
Government bonds	<u>1,003</u>	<u>-</u>
	<u>554,477</u>	<u>2,323,160</u>
	<u>\$ 28,937,682</u>	<u>\$ 14,234,036</u>

The Bank held 116,565,240 shares of SPH with carrying amounts of \$1,490,918. Those shares of SPH held by the Bank did not abide with the Financial Holding Company Act, which requires those shares to be (i) reissued to the employees of SPH or SPH's subsidiaries within three years, (ii) used for equity conversion, or (iii) sold on a stock exchange or GTSM as of May 8, 2005. In the event that shares are not reissued or sold, such shares should be cancelled which causes the SPH's capital stock to decrease, and the alteration registration should be completed. According to the explanations of ARDF of ROC, if the Bank does not receive any proceeds from SPH for those cancelled shares, the Bank needs to decrease its capital based on the capital decrease ratio while SPH follows the regulation to cancel and decrease its capital stock. The Bank got approval from the authorities for the cancellation of capital stock, resulting in decreasing of capital stock of the Bank by \$1,135,324. The date for capital decreasing is on August 26, 2005.

As of September 30, 2006, financial assets designated at fair value through profit or loss aggregating \$1,003 had been pledged to the GTSM for the bond settlement reserves for electronic bond trading system.

Held-for-trading financial assets as of September 30, 2006 and 2005 with a total face amount of \$3,045,265 and \$3,101,324 were sold under agreement to repurchase.

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Held for trading financial liabilities</u>		
Forward contracts	\$ 1,010,009	\$ -
Interest rate swap contracts	818,637	14,578
Premiums received on option contracts	598,338	1,154,204
Bond options	547,432	98,604
Cross-currency swap contracts	32,514	-
Structured instruments	2,670	2,449
Others	<u>69,342</u>	<u>-</u>
	<u>\$ 3,078,942</u>	<u>\$ 1,269,835</u>

The Bank engages in derivative transactions mainly for accommodating customers' needs and managing its exposure positions. The Bank's strategy is to hedge most of the market risk exposures using hedging instruments with market value changes that have a highly negative correlation with the changes in the market of the exposures being hedged.

The contract amounts (notional amounts) of derivative transactions for accommodating customers' needs and managing its exposure positions were as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Cross-currency swap contracts	\$ 8,323,700	\$ 20,271,130
Interest rate swap contracts	179,557,578	115,711,157
Currency swap contracts	245,693,650	178,788,543
Forward contracts		
Buy	91,794,071	73,710,740
Sell	81,513,615	68,781,912
Interest rate futures contracts		
Short position	125,850	1,089,792
Commodity-linked interest rate swap contracts	103,265	116,822
Options		
Long position	62,592,678	79,848,721
Short position	62,236,449	83,714,917
Equity linked swap contracts	407,436	-
Credit linked swap contracts	4,300,000	-
Credit default swap contracts	628,862	365,475

The gains on held for trading financial assets and liabilities for the nine months ended September 30, 2006 were \$246,500, and the losses for the nine months ended September 30, 2005 were \$767,631.

## 7. ACCOUNTS, INTEREST AND OTHER RECEIVABLES, NET

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Accounts receivable - factoring	\$ 27,950,324	\$ 19,659,580
Acceptances	2,283,375	1,535,559
Interest receivable	1,319,934	1,050,899
Accounts receivable	4,674,433	158,779
Accrued revenue	463,825	304,720
Receivable from related party for allocation of linked-tax system	245,723	97,082
Tax refundable	15,868	23,036
Others	<u>78,526</u>	<u>63,434</u>
	37,032,008	22,893,089
Less - allowance for credit losses	<u>36,213</u>	<u>-</u>
	<u>\$ 36,995,795</u>	<u>\$ 22,893,089</u>

## 8. DISCOUNTS AND LOANS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Import and export negotiations	\$ 1,225,846	\$ 1,698,725
Overdrafts	1,070,273	1,174,834
Accounts receivable - financing	3,495,253	3,797,723
Short-term loans	68,482,982	67,560,753
Medium-term loans	46,505,441	52,462,069
Long-term loans	185,750,137	161,685,114
Nonperforming loans transferred from loans	<u>3,522,297</u>	<u>2,761,406</u>
	310,052,229	291,140,624
Less - allowance for credit losses	<u>1,963,705</u>	<u>1,393,197</u>
	<u>\$ 308,088,524</u>	<u>\$ 289,747,427</u>

As of September 30, 2006 and 2005, the balances of nonaccrual interest loans were \$3,813,203 and \$3,070,662, respectively. The unrecognized interest revenues on nonaccrual interest loans amounted to \$66,843 and \$51,383 for the nine months ended September 30, 2006 and 2005, respectively.

For the nine months ended September 30, 2006 and 2005, the Bank had not written off credits for which legal proceedings had not been initiated.

The details of and changes in allowance for credit losses of loans, discounts and loans for the nine months ended September 30, 2006 and 2005, respectively, were summarized below:

	<b>For the Nine Months Ended September 30, 2006</b>		
	<b>Specific Reserve</b>	<b>General Reserve</b>	<b>Total</b>
Balance, January 1	\$ 535,882	\$ 1,059,984	\$ 1,595,866
Provision	747,551	92,697	840,248
Write-off	(476,925)	-	(476,925)
Recovery of written-off credits	2,705	-	2,705
Reclassifications	357,251	(356,679)	572
Result from change of foreign exchange rate	1,803	-	1,803
Others	(564)	-	(564)
Balance, September 30	<u>\$ 1,167,703</u>	<u>\$ 796,002</u>	<u>\$ 1,963,705</u>

	<b>For the Nine Months Ended September 30, 2005</b>		
	<b>Specific Reserve</b>	<b>General Reserve</b>	<b>Total</b>
Balance, January 1	\$ 331,625	\$ 843,273	\$ 1,174,898
Provision	480,107	-	480,107
Write-off	(255,898)	-	(255,898)
Recovery of written-off credits	7,144	-	7,144
Reclassifications	(30,073)	18,702	(11,371)
Result from change of foreign exchange rate	2,957	-	2,957
Others	(4,640)	-	(4,640)
Balance, September 30	<u>\$ 531,222</u>	<u>\$ 861,975</u>	<u>\$ 1,393,197</u>

As of September 30, 2006 and 2005, allowances for credit losses and provisions for losses on guarantees of the Bank were \$1,999,918 and \$1,487,792, respectively.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Negotiable certificate of deposit	\$ 120,709,055	\$ 75,500,000
Bank debentures	1,206,670	-
Subordinated beneficiary certificates of securitization	1,014,243	1,014,300
Corporate bonds	815,879	-
Government bonds	<u>730,544</u>	<u>693,590</u>
	<u>\$ 124,476,391</u>	<u>\$ 77,207,890</u>

The available-for-sale financial assets amounting to \$251,920 and \$371,844 as of September 30, 2006 and 2005 had been provided to GTSM as bond payment settlement reserves for electronic bond trading system and to court for provisional seizure.

To comply with the Central Bank's clearing system of RTGS, face amount of negotiable certificates of deposit aggregating \$13,000,000 and \$8,000,000 had been provided as collaterals for the daytime overdraft as of September 30, 2006 and 2005, respectively, with pledged amounts that can be adjusted momentarily.

The available-for-sale financial assets amounting \$301,183 and \$374,646 as of September 30, 2006 and 2005, respectively, had been sold under agreements to repurchase.

## 10. SECURITIZATION

- a. Characteristic, gain (loss) recognized and key economic assumptions used in measuring retained interests

In August 2004, the Bank sold part of its enterprise loans under securitization transactions. The Bank entrusted these loans to Fuhwa Bank for issuing beneficiary certificates. The terms and key economic assumptions used in measuring retained interests were as follows:

<b>Terms</b>	<b>Enterprise Loans under Securitization</b>
Date of issuance	August 3, 2004
Carrying amount of enterprise loans	\$ 4,900,000
Gain (loss) on securitization	-

September 30, 2006

<b>Series of Certificates</b>	<b>Senior</b>				<b>Subordinated</b>
	<b>First Tranche</b>	<b>Second Tranche</b>	<b>Third Tranche</b>	<b>Fourth Tranche</b>	<b>Fifth Tranche</b>
Principal amount	\$ 1,188,100	\$ 534,100	\$ 441,000	\$ 122,500	\$ 1,014,300
Annual interest	Floating interest rate plus 0.4% (Note)	Floating interest rate plus 0.6% (Note)	Floating interest rate plus 1.0% (Note)	Floating interest rate plus 1.2% (Note)	-
<u>Key assumptions used in measuring retained interests</u>					
Expected weighted-average life (in years)			3		
Expected credit losses (annual rate)			-		
Discounted rate for residual cash flows			1.691%		

September 30, 2005

Series of Certificates	Senior				Subordinated
	First Tranche	Second Tranche	Third Tranche	Fourth Tranche	Fifth Tranche
Principal amount	\$ 1,190,041	\$ 534,100	\$ 441,000	\$ 122,500	\$ 1,014,300
Annual interest	Floating interest rate plus 0.4% (Note)	Floating interest rate plus 0.6% (Note)	Floating interest rate plus 1.0% (Note)	Floating interest rate plus 1.2% (Note)	-
Key assumptions used in measuring retained interests					
Expected weighted-average life (in years)			3		
Expected credit losses (annual rate)			-		
Discounted rate for residual cash flows			1.349%		

Note: Floating rate is the average rate of the 90-day short-term bills in the secondary market of Telerate Information Inc., at 11:00 a.m. of Taipei time two working days prior to the first day of interest period of financial assets (shown on page 6165).

The investors of the subordinated certificates have a right over any remaining interest paid after fixed interest has been paid to the holders of the senior certificates in accordance with the principal amount. Any prepayment of principal shall be paid to the tranche in the order mentioned above. When the debtors fail to pay on schedule, the investors and Fuhwa Bank have no recourse to the other assets of the Bank. The Bank has a right over the subordinated certificates. The value of the subordinated certificates is subject to credit and interest rate risks on the transferred financial assets.

b. Sensitivity analysis

As of September 30, 2006 and 2005, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in these assumptions were as follows:

	Enterprise Loans	
	September 30 2006	September 30 2005
Carrying amount of retained interest	\$ 1,014,243	\$ 1,014,300
Weighted-average life (in years)	3	3
Discount rate of residual cash flows (annual rate)	1.691%	1.349%
Impact on fair value of 10% adverse change	(97)	(63)
Impact on fair value of 20% adverse change	(257)	(196)

c. Due to the loans for securitized having no actual credit losses, the rate of expected static group loss equals to that of expected credit loss. And the expected credit losses for the nine months ended September 30, 2006 are \$57.

d. Cash flows

For the nine months ended September 30, 2005, the prepayments of principal before due date resulted in the cash inflow amounted to \$1,598,059.

**11. HELD-TO-MATURITY FINANCIAL ASSETS**

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Floating rate notes	\$ 366,445	\$ -
Government bonds	207,839	776,508
Bank debentures	165,490	972,825
Negotiable certificate of deposit	165,490	-
Beneficiary certificates - credit card receivables	80,000	80,000
Corporate bonds	-	331,880
	<u>\$ 985,264</u>	<u>\$ 2,161,213</u>

To comply with Hong Kong branch's clearing system of real-time gross settlement, government bonds included in held-to-maturity financial assets had been provided as collaterals as of September 30, 2006 and 2005.

The held-to-maturity investments amounting \$93,237 and \$394,008 as of September 30, 2006 and 2005, had been sold under agreement to repurchase.

**12. EQUITY INVESTMENTS - EQUITY METHOD**

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
SinoPac Bancorp	\$ 6,287,326	\$ 5,793,459
SinoPac Leasing Corporation	1,230,278	1,985,803
SinoPac Capital Limited (H.K.)	1,013,105	1,061,272
SinoPac Financial Consulting Co., Ltd.	<u>2,376</u>	<u>2,308</u>
	<u>\$ 8,533,085</u>	<u>\$ 8,842,842</u>

Income from equity investments for the nine months ended September 30, 2006 and 2005, respectively, were summarized as follows:

	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
<u>Equity method</u>		
SinoPac Bancorp	\$ 431,887	\$ 330,129
SinoPac Leasing Corporation	117,637	42,159
SinoPac Capital Limited (H.K.)	123,916	30,590
SinoPac Financial Consulting Co., Ltd.	<u>121</u>	<u>131</u>
	<u>\$ 673,561</u>	<u>\$ 403,009</u>

The net income of SinoPac Bancorp for the nine months ended September 30, 2005 amounted to \$389,940 was translated into NTD at the average exchange rate for the respective periods. The difference between the translated net income of SinoPac Bancorp and the one recognized by the Bank was generated from some different accounting treatments between ROC GAAP and US GAAP. Upon the adoption of accounting standards effective on January 1, 2006, those different accounting treatments have been eliminated.

The aforementioned income from equity investments under the equity method were recognized on the basis of investees' reviewed financial statements for the same period, except for the investment income of SinoPac Financial Consulting Co., Ltd. for the nine months ended September 30, 2006 and 2005 and that of SinoPac Capital Limited (H.K.) for the nine months ended September 30, 2005 which were based on the unreviewed statements for the same period. The carrying amounts of the investments accounted for by the equity method as of September 30, 2005 totalling \$1,063,580, and the related investment income \$30,721, for the nine months then ended were based on the investees' unreviewed financial statements for the same period. The Bank believes that any adjustments that some have to be made to these investments and investment income if such financial statements had been reviewed.

The Bank believes that the adjustment is immaterial to the investment and investment income of SinoPac Financial Consulting Co., Ltd. if such financial statements had been reviewed.

### 13. OTHER FINANCIAL ASSETS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Unquoted equity instruments		
Unlisted equity investments	\$ 172,922	\$ 358,074
Non-active market debt instruments		
Floating rate notes	1,210,890	52,603
Corporate bonds	198,588	-
Assets based securities	425,412	65,380
Other financial assets		
Hedged derivative financial instruments	488,317	-
Nonperforming loans transferred from other than loans, net	78,658	61,288
Excess margin	95,781	77,013
Short-term advancement	28,510	15,748
Others	<u>779</u>	<u>1,226</u>
	<u>\$ 2,699,857</u>	<u>\$ 631,332</u>

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are measured at cost.

#### 14. PROPERTIES

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Cost	\$ 7,496,701	\$ 7,209,663
Accumulated depreciation		
Buildings	603,299	515,579
Computer equipment	1,083,725	1,002,093
Transportation equipment	31,476	35,334
Office and other equipment	<u>1,072,189</u>	<u>945,525</u>
	<u>2,790,689</u>	<u>2,498,531</u>
	4,706,012	4,711,132
Advances on acquisitions of equipment and construction in progress	<u>75,650</u>	<u>253,899</u>
	<u>\$ 4,781,662</u>	<u>\$ 4,965,031</u>

#### 15. OTHER ASSETS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Guarantee deposits	\$ 591,865	\$ 494,096
Collateral assumed, net of accumulated impairment \$35,223 and \$35,034 as of September 30, 2006 and 2005, respectively	566,939	701,107
Prepaid expenses	171,968	272,725
Computer system software	151,957	204,441
Others	<u>93,907</u>	<u>94,103</u>
	<u>\$ 1,576,636</u>	<u>\$ 1,766,472</u>

#### 16. CALL LOANS AND DUE TO BANKS

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Call loans	\$ 52,682,392	\$ 42,179,712
Redeposits from the directorate general of postal remittance	3,562,563	3,910,258
Due to banks	44,883	29,339
Due to the Central Bank	<u>26,457</u>	<u>23,310</u>
	<u>\$ 56,316,295</u>	<u>\$ 46,142,619</u>

## 17. ACCOUNTS, INTEREST AND OTHER PAYABLES

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Accounts payable - factoring	\$ 13,060,792	\$ 6,142,963
Interest payable	2,371,206	1,582,948
Acceptance payable	2,283,375	1,535,559
Notes and checks in clearing	1,404,765	658,259
Accounts payable	1,097,620	633,176
Accrued expenses	776,059	762,789
Temporary payments	643,881	640,321
Tax payable	113,895	250,806
Others	<u>269,778</u>	<u>200,155</u>
	<u>\$ 22,021,371</u>	<u>\$ 12,406,976</u>

## 18. DEPOSITS AND REMITTANCES

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Checking	\$ 5,086,089	\$ 5,436,801
Demand	52,304,370	54,414,893
Savings - demand	80,678,821	72,232,477
Time	176,177,547	122,700,983
Negotiable certificates of deposit	30,890,600	25,914,900
Savings - time	80,521,393	71,495,219
Inward remittances	665,461	232,153
Outward remittances	<u>213,330</u>	<u>176,857</u>
	<u>\$ 426,537,611</u>	<u>\$ 352,604,283</u>

## 19. BANK DEBENTURES

	<u>September 30</u>		Maturity Date	Terms
	<u>2006</u>	<u>2005</u>		
First dominant bank debenture issued in 2001	\$ 5,000,000	\$ 5,000,000	2001.12.20-2006.12.20 Principal is repayable on maturity date.	Fixed interest rate of 3.08%. Interest is paid annually.
First subordinated bank debenture issued in 2002	2,000,000	2,000,000	2002.12.23-2008.03.23 Principal is repayable on maturity date.	Floating interest rate except for the first two years fixed at 2.15%. Interest is paid semiannually.
First dominant bank debenture issued in 2003	1,000,021	1,000,000	2003.02.14-2008.02.14 Principal is repayable on maturity date.	3.65% minus 6-month LIBOR. Interest is paid semiannually.
Second dominant bank debenture issued in 2003	500,155	500,000	2003.03.19-2008.09.19 Principal is repayable on maturity date.	3.48% minus 6-month LIBOR. Interest is paid semiannually.
Third dominant bank debenture issued in 2003	1,502,984	1,500,000	2003.05.09-2008.11.09 Principal is repayable on maturity date.	4.15% minus 6-month LIBOR except for the first year fixed at 2.5%. Interest is paid semiannually.

(Continued)

	<u>September 30</u>		Maturity Date	Terms
	2006	2005		
Fourth dominant bank debenture issued in 2003	\$ 418,295	\$ 400,000	2003.05.09-2008.11.09 Principal is repayable on maturity date.	2% plus 180-day-NTD CP rate in secondary market and minus 6-month LIBOR. Interest is paid semiannually.
First subordinated bank debenture issued in 2003	2,500,000	2,500,000	2003.06.18-2008.12.18 Principal is repayable on maturity date.	180-day CP rate in secondary market plus 0.3%. Interest is paid semiannually.
Fifth dominant bank debenture issued in 2003	999,926	1,000,000	2003.08.11-2010.08.11 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Sixth dominant bank debenture issued in 2003	698,348	700,000	2003.08.20-2009.02.20 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Seventh dominant bank debenture issued in 2003	799,920	800,000	2003.09.16-2008.09.16 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Eighth dominant bank debenture issued in 2003	499,712	500,000	2003.09.16-2008.09.16 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Ninth dominant bank debenture issued in 2003	300,264	300,000	2003.09.22-2008.09.22 Principal is repayable on maturity date.	Coupon rate at 2.55% for the first year of the issuance and 5% minus index rate for the years thereon.
Tenth dominant bank debenture issued in 2003	1,001,537	1,000,000	2003.11.05-2008.11.05 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Eleventh dominant bank debenture issued in 2003	999,118	1,000,000	2003.11.14-2008.11.14 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Twelfth dominant bank debenture issued in 2003	501,608	500,000	2003.11.21-2008.11.21 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Thirteenth dominant bank debenture issued in 2003	499,883	500,000	2003.11.28-2008.11.28 Principal is repayable on maturity date.	Floating rate except for the first year fixed at 4%. Interest is paid semiannually.
Fourteenth dominant bank debenture issued in 2003	2,211,991	2,200,000	2003.12.02-2009.06.02 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Second subordinated bank debentures issued in 2003	3,600,000	3,600,000	2004.03.18-2009.09.18 Principal is repayable on maturity date.	Fixed interest rate of 2.3%, interest is paid semiannually.
First dominant bank debentures issued in 2004	529,784	500,000	2004.04.26-2009.10.26 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Second dominant bank debentures issued in 2004	300,412	300,000	2004.04.28-2009.10.28 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Third dominant bank debentures issued in 2004	502,101	500,000	2004.04.29-2009.04.29 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Fourth dominant bank debentures issued in 2004	200,440	200,000	2004.05.14-2009.05.14 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Fifth dominant bank debentures issued in 2004	300,628	300,000	2004.05.17-2009.05.17 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Sixth dominant bank debentures issued in 2004	503,728	500,000	2004.05.17-2009.05.17 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Seventh dominant bank debentures issued in 2004	200,114	200,000	2004.05.21-2009.05.21 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.

(Continued)

	<u>September 30</u>		Maturity Date	Terms
	2006	2005		
Eighth dominant bank debentures issued in 2004	\$ 519,382	\$ 500,000	2004.05.21-2011.05.21 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Ninth dominant bank debentures issued in 2004	301,713	300,000	2004.06.03-2009.06.03 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Tenth dominant bank debentures issued in 2004	509,360	500,000	2004.06.07-2009.06.07 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Eleventh dominant bank debentures issued in 2004	203,057	200,000	2004.06.15-2009.06.15 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Twelfth dominant bank debentures issued in 2004	516,649	500,000	2004.06.15-2010.06.15 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Thirteenth dominant bank debentures issued in 2004	304,971	300,000	2004.06.30-2009.06.30 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Fourteenth dominant bank debentures issued in 2004	511,480	500,000	2004.07.09-2010.07.09 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Fifteenth dominant bank debentures issued in 2004	523,427	500,000	2004.07.13-2011.07.13 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
First subordinated bank debentures issued in 2004	1,549,880	1,500,000	2004.09.14-2010.06.14 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Second subordinated bank debentures issued in 2004	500,000	500,000	2004.09.14-2010.06.14 Principal is repayable on maturity date.	Index rate plus 0.50%. Interest is reset semiannually since the issuance date. Interest is paid semiannually.
First subordinated debentures issued in 2005	3,000,000	-	2005.12.13-2011.06.13 Principal is repayable on maturity date.	Index rate plus 0.35%. Interest is reset semiannually since the issuance date. Interest is paid semiannually.
	<u>\$ 36,010,888</u>	<u>\$ 32,800,000</u>		

(Concluded)

## 20. STOCKHOLDERS' EQUITY

### a. Capital stock

The capitalization of retained earnings in 2004 had been approved by the authority, and the authorized and issued capital increased from \$19,443,976 to \$20,863,392 on July 6, 2005. Pursuant to the Financial Holding Company Act, the 116,565,240 shares of SPH, which were held by the Bank for three years as of May 8, 2005, has been cancelled and subsequently decreased the SPH's capital stock. In addition, the alteration registration has been completed. Because the Bank did not receive the proceeds from SPH for those cancelled shares, it had to decrease its capital according to the capital decrease ratio. The capital stock decreased by \$1,135,324 (please see Note 6), and the capital stock after capital decrease amounted to \$19,728,068. Furthermore, the Bank increased its authorized capital to \$80,000,000 to accommodate the need of merging with IBT.

b. Capital surplus

Under the Company Law, the component of capital surplus arising from issuance of shares in excess of par value and donation can, except in the year it arises, can be transferred to common stock, if approved by stockholders. This distribution can be made only within specified limits. These restrictions are in accordance with regulations issued by Securities and Futures Bureau (SFB), Financial Supervisory Commission, Executive Yuan, ROC.

Capital surplus arising from long-term equity investment accounted for by equity method cannot be distributed for any purpose.

c. Retained earnings and dividend policy

The Bank's Articles of Incorporation provide that the Bank may declare dividends or make other distributions from earnings after it has:

- 1) Deducted any deficit of prior years;
- 2) Paid all outstanding taxes;
- 3) Set aside 30% of remaining earnings as legal reserve;
- 4) Set aside any special reserve or retained earnings allocated at its option;
- 5) Allocated Stockholders' dividends
- 6) Allocated at least 1% of the remaining earnings which allocated stockholders' dividends as employee bonus.

To comply with the Bank's globalization strategy, strengthen its market position, integrate its diversified business operation and be a major local bank, the Bank has adopted the "Balanced Dividend Policy". Under this policy, dividends available for distribution are determined by referring to its capital adequacy ratio (CAR). Cash dividends may be declared if the Bank's CAR is above 10% and stock dividends may be declared if the CAR is equal to or less than 10%. However, the Bank may make a discretionary cash distribution even if the CAR is below 10%, if approved at the stockholders' meeting, for the purpose of maintaining the cash dividends at a certain level in any given year.

Cash dividends and cash bonus are paid when approved by the stockholders, while the distribution of stock dividends requires the additional approval of the authorities.

Under the Company Law, the appropriation for legal reserve is made until the reserve equals the aggregate par value of the outstanding capital stock of the Bank. This reserve is only used to offset a deficit. When its balance reaches 50% of aggregate par value of the outstanding capital stock of the Bank, and the Bank have no earnings, the legal reserve over 50% can be distributed as stock dividend or bonus, or, the Bank have no deficit, the Bank can retain the legal reserve up to 15% of the outstanding capital and transferred the remaining legal reserve to common stock. In addition, the Banking Law provides that, before the balance of the reserve reaches the aggregate par value of the outstanding capital stock, annual cash dividends, remuneration to directors and supervisors and bonus to employees should not exceed 15% of aggregate par value of the outstanding capital stock of the Bank.

Under the Financial Holding Company Act, the board of directors is empowered to execute the authority in stockholders' meeting, which is under no jurisdiction in the related regulations in the Company Law.

On June 2, 2006, and April 28, 2005, the board of directors which execute rights and functions of stockholders' meeting resolved the appropriation of 2005 and 2004 earnings, respectively, as follows:

	<u>Earnings Appropriation</u>		<u>Dividends Per Share (New Taiwan Dollars)</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Legal reserve	\$ 497,192	\$ 1,285,444		
Remuneration to directors and supervisors	32,000	26,847		
Bonus to employees - cash	11,601	28,946		
Cash dividends	1,116,514	1,419,416	\$0.57	\$0.73
Stock dividends	-	1,419,416		0.73
	<u>\$ 1,657,307</u>	<u>\$ 4,180,069</u>		

## 21. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

	<u>For the Nine Months Ended September 30</u>	
	<u>2006</u>	<u>2005</u>
Personnel expenses		
Salaries and wages	\$ 1,974,747	\$ 1,946,496
Pension	127,463	124,084
Labor insurance and national health insurance	105,358	90,773
Others	125,949	111,603
Depreciation	279,049	276,797
Amortization	69,736	72,084

## 22. PENSION

The Labor Pension Act took effect on July 1, 2005, and the Bank's employees, who were on service before July 1, 2005, could choose the pension mechanism either under the Labor Standard Law or under this Act. For those employees who choose the pension mechanism regulated by the Labor Standard law, their seniority prior to the enforcement of Labor Pension Act shall be maintained. The newly hired employees, who were hired after July 1, 2005, could only be regulated by the Labor Pension Act.

Since July 1, 2005, for those employees who still choose to be subjected to the Labor Standard Law, the Bank makes monthly contributions, equal to 4% of employee salaries, to the severance payment fund. If the employees quit willingly, they still can receive the severance payment based on the severance payment criteria.

For those employees who choose to be subjected to the Labor Pension Act, the Bank ceases to contribute into severance payment fund. The cumulated contributions generated before applying Labor Pension Act is summed up in the balance at that month and retained in the severance payment fund. The employees will receive severance payments according to severance payment criteria when they quit willingly.

For the Bank's employees choose the pension mechanism regulated by the Labor Standard Law, the retirement payments shall be paid to employees on the basis of the following standard: (i) a lump sum payment of retirement payments equal to two base units shall be paid for each year of service (ii) provided that each year of service exceeding fifteen years shall be entitled to only one base unit of wage (iii) and that the maximum payment shall be forty-five base units. Any fraction of a year which is equal to or more than six months shall be counted as one year of service, and any fraction of a year which is less than six months shall be counted as half a year of service.

The Bank's employees contribute a compulsory amount equivalent to 4% of their salaries to the employees' pension fund, and the Bank also makes monthly contributions to the severance payment fund. The Labor Pension Act took effect on July 1, 2005, therefore the aforementioned employees' pension fund ceased to contribute, and the employees received their cumulative contributions and related interest thereon.

The Bank applied defined contribution plan regulated by Labor Pension Act after July 1, 2005. Under this Act, the Bank contributed 6% of the employee salaries to the Labor Insurance Administration (according to this Act, the contribution rate by the employer to the Labor Pension Fund per month shall not be less than 6% of the employee's monthly wages). For the nine months ended September 30, 2006 and 2005, the pension expense amounted to \$57,302 and \$15,140, which was contributed to personal pension accounts.

Information related to defined benefit pension plan of the Bank is disclosed as follows:

a. The changes in the pension fund were summarized below:

	<b>For the Nine Months Ended September 30</b>	
	<b>2006</b>	<b>2005</b>
Balance, January 1	\$ 851,701	\$ 1,280,049
Contributions	67,165	154,840
Benefits paid	(26,714)	(625,060)
Interest revenue	<u>10,826</u>	<u>31,734</u>
Balance, September 30	<u>\$ 902,978</u>	<u>\$ 841,563</u>

The ending balances as of September 30, 2006 and 2005 consisted of:

	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Contributions by the Bank	\$ 902,978	\$ 835,778
Contributions by employees	<u>-</u>	<u>5,785</u>
	<u>\$ 902,978</u>	<u>\$ 841,563</u>

b. The changes in the accrued pension cost (included in other liabilities) were summarized below:

	<b>For the Nine Months Ended September 30</b>	
	<b>2006</b>	<b>2005</b>
Balance, January 1	\$ 125,821	\$ 121,606
Provision under defined benefit plans	65,913	105,089
Provision under defined contribution plans	57,302	15,140
Contributions	<u>(108,686)</u>	<u>(101,270)</u>
Balance, September 30	<u>\$ 140,350</u>	<u>\$ 140,565</u>

Pension expenses including domestic and overseas branches amounted to \$127,463 and \$124,084 for the nine months ended September 30, 2006 and 2005, respectively.

## 23. INCOME TAX

Under a directive issued by the MOF, a financial holding company and its domestic subsidiaries which over 90% of shares issued was held by the financial holding company for 12 months within the same tax year, may choose to adopt the linked tax system for income tax filings. SPH adopted the linked-tax system for income tax filings with its qualified subsidiaries since 2003.

The accounting treatment applied by the Group to the income tax is to adjust in SPH's book the difference between the combined current/deferred taxes and the total of each Group member's current/deferred. Related payables and receivables were recorded in each of the Group members' books.

- a. The components of income tax were as follows:

	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Current income tax payable	\$ 25,691	\$ 302,236
Separate taxes on short-term bills interest revenue	247,151	149,019
Change in deferred income taxes	222,395	22,394
Foreign income taxes over limitation	-	3,783
Income tax on unappropriated earnings	<u>(2,151)</u>	<u>(19)</u>
	<u>\$ 493,086</u>	<u>\$ 477,413</u>

Income tax was based on taxable income from all sources. Foreign income taxes paid can be used as credits against the domestic income tax obligations to the extent of domestic income tax applicable to the foreign-source income.

- b. Reconciliation of tax on pretax income at statutory rate and current income tax payable:

	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2006</b>	<b>2005</b>
Tax on pretax income at 25% statutory rate	\$ 776,133	\$ 753,749
Add (deduct) tax effects of:		
Tax-exempt income	(72,141)	(63,585)
Permanent difference	(469,866)	(379,536)
Temporary difference	(205,776)	(5,186)
Investment tax credit	<u>(2,659)</u>	<u>(3,206)</u>
Current income tax payable	<u>\$ 25,691</u>	<u>\$ 302,236</u>

- c. Deferred income tax assets (liabilities) consisted of the tax effects of the following:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Investment income under the equity method	\$ (822,344)	\$ (648,464)
Deferred pension cost	32,593	33,058
Unrealized foreign exchange gain and unrealized revaluation gains on derivative from financial instruments	2,911	67,057
Cumulated effect of accounting change	17,232	-
Others	<u>(46,555)</u>	<u>(46,555)</u>
Deferred income tax liabilities, net	<u>\$ (816,163)</u>	<u>\$ (594,904)</u>
Deferred income tax assets (included in other assets)	<u>\$ 4,023</u>	<u>\$ 5,809</u>

- d. The estimated receivables and payables from adopting the linked-tax system of income tax filing was as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Receivable from related party	<u>\$ 245,723</u>	<u>\$ 97,082</u>

- e. The related information under the Integrated Income Tax System was as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Balances of imputed tax credit account	<u>\$ 59,634</u>	<u>\$ 38,214</u>

The actual imputed tax ratio for earnings in 2005 and 2004 are 16.35% and 4.9957%, respectively.

- f. Income tax returns through 2002, except those for 1996, had been examined by the tax authorities. On the income tax returns for the aforementioned years, the tax authorities denied the creditability of 10% withholding tax on interest income on bonds pertaining to the period when those bonds were held by other investors. The Bank appealed the decision of the tax authorities. Nevertheless, on the basis of conservative principles, the Bank recognized \$111,945 as part of income tax expenses to reflect accrued liabilities and any assets written off in relation to the foregoing withholding taxes for the year 1994 to 2001 and year 2004.

Under the Integrated Income Tax system, noncorporate and ROC-resident stockholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

## 24. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per shares (EPS) were summarized as follows:

	<u>Numerator (Amounts)</u>		<u>Denominator (Shares in Thousands)</u>	<u>EPS (NT\$)</u>	
	<u>Pretax</u>	<u>After Tax</u>		<u>Pretax</u>	<u>After Tax</u>
For the nine months ended <u>September 30, 2006</u>					
Basic EPS					
Income before cumulative effect of accounting changes	\$ 3,104,533	\$ 2,611,447	1,972,807	\$ 1.57	\$ 1.32
Cumulative effect of accounting change	<u>231,835</u>	<u>249,067</u>	1,972,807	<u>0.12</u>	<u>0.13</u>
Net income to common stockholders	<u>\$ 3,336,368</u>	<u>\$ 2,860,514</u>	1,972,807	<u>\$ 1.69</u>	<u>\$ 1.45</u>
For the nine months ended <u>September 30, 2005</u>					
Basic EPS					
Net income to common stockholders	<u>\$ 3,014,997</u>	<u>\$ 2,537,584</u>	2,071,784	<u>\$ 1.46</u>	<u>\$ 1.22</u>

## 25. RELATED-PARTY TRANSACTIONS

In addition to the disclosure in other footnotes, relationship with the Bank and significant transactions between the Bank and related parties were summarized as follows:

### a. Related parties

<u>Name</u>	<u>Relationship with the Bank</u>
SinoPac Financial Holdings Company Limited (SPH)	Parent company
SinoPac Securities Corporation (SinoPac Securities)	Subsidiary of SPH
SinoPac Marketing Consulting Co., Ltd. (SinoPac Marketing Consulting)	Subsidiary of SPH
SinoPac Call Center Co., Ltd. (SinoPac Call Center)	Subsidiary of SPH
SinoPac Venture Capital Co., Ltd. (SinoPac Venture Capital)	Subsidiary of SPH
SinoPac Asset Management International (SinoPac Asset Management)	Subsidiary of SPH
SinoPac Life Insurance Agent Co., Ltd. (SPLIA)	Subsidiary of SPH
SinoPac Property Insurance Agent Co., Ltd. (SPPIA)	Subsidiary of SPH
AnShin Card Services Company Limited (AnShin Card Services)	Subsidiary of SPH
Far East National Bank (FENB)	Overseas affiliate of the Bank
SinoPac Leasing Corporation (SPL)	Subsidiary
RSP Information Service Company Limited (RSP Information)	Affiliate of the Bank
SinoPac Capital Ltd.	Overseas affiliate of the Bank

(Continued)

<u>Name</u>	<u>Relationship with the Bank</u>
Grand Capital International Limited (Grand Capital)	Subsidiary of SPL
Fortune Investment Co., Ltd. (Fortune Investment)	Supervisor of SPH
Ruentex Development Co., Ltd. (Ruentex Development)	Related party in substance
Wal Tech International Corporation (Wal Tech International)	Affiliate
International Bank of Taipei Co., Ltd. (IBT)	Subsidiary of SPH (became a wholly owned subsidiary of SPH since December 26, 2005)
Formosa Plastic Corporation (Formosa Plastic)	Related party in substance
SinoPac Asia Securities (Asia) Limited	Affiliate of SinoPac Securities
SinoPac Futures Corporation (SinoPac Futures)	Subsidiary of SinoPac Securities
SinoPac Managed Futures Co., Ltd. (SinoPac Managed Futures)	Affiliate of SinoPac Securities
Fuh Hwa Securities Investment Trust Co., Ltd.	The Bank is the director of Fuh Hwa Securities Investment Trust Co., Ltd.
Fuh-Hwa Yuli Bond Fund	Managed by Fuh Hwa Securities Investment Trust
Fuh-Hwa Albatross Fund	Managed by Fuh Hwa Securities Investment Trust
Fuh-Hwa Small Capital Fund	Managed by Fuh Hwa Securities Investment Trust
Fuh-Hwa Digital Economy Fund	Managed by Fuh Hwa Securities Investment Trust
Fuh-Hwa Bond Fund	Managed by Fuh Hwa Securities Investment Trust
Fuh-Hwa Olympic Global Fund	Managed by Fuh Hwa Securities Investment Trust
SinoPac Securities (Cayman) Holding	Subsidiary of SinoPac Securities
Other	The Bank's directors, supervisors, managers and their relatives, department chiefs, the investees accounted for by the equity method and their subsidiaries, and the investees of SPH's other subsidiaries, etc.
Other	Related parties under the control of the Bank but without transactions, please refer to Table 4 (Concluded)

b. Significant transactions between the Bank and related parties

1) Loans

	<b>Ending Balance</b>	<b>% of Total</b>	<b>Interest Rate (%)</b>	<b>Interest Revenue</b>	<b>% of Total</b>
For the nine months ended <u>September 30, 2006</u>					
SinoPac Securities	\$ 65,000	0.02%	1.7	\$ 716	0.004%
SPL	680,000	0.22%	1.84-1.89	5,284	0.033%
Formosa Plastic	90,920	0.03%	2.297-2.715	2,223	0.014%
Wal Tech International	17,000	0.01%	1.85	153	0.001%
Fortune Investment	72,000	0.02%	2.135	1,030	0.006%
Others	1,473,181	0.48%	0-10.77	10,288	0.06%

	<b>Ending Balance</b>	<b>% of Total</b>	<b>Interest Rate (%)</b>	<b>Interest Revenue</b>	<b>% of Total</b>
For the nine months ended <u>September 30, 2005</u>					
SinoPac Securities	\$ 438,000	0.15%	1.55	\$ 406	0.003%
SPL	758,880	0.26%	1.5-1.55	17,050	0.15%
Wal-Tech International	9,500	0.003%	1.55	2,947	0.03%
Grand Capital	547,700	0.19%	4.26-4.685	6,855	0.06%
Fortune Investment	72,000	0.02%	2.04	1,015	0.01%
Others	745,160	0.26%	1.5-12.8	3,595	0.03%

## 2) Deposits

	<b>Ending Balance</b>	<b>% of Total</b>	<b>Interest Rate (%)</b>	<b>Interest Expense</b>	<b>% of Total</b>
For the nine months ended <u>September 30, 2006</u>					
SPH	\$ 379,186	0.09%	0.3-8.25	\$ 73,008	0.682%
SinoPac Securities	1,783,374	0.42%	0.005-5.15	16,650	0.156%
SinoPac Securities (Cayman) Holdings	237,181	0.06%	2.2	8,212	0.077%
SinoPac Venture Capital Co., Ltd.	415,390	0.1%	0.3-2.2	4,143	0.039%
SinoPac Futures	200,435	0.05%	0.3-2.075	9,457	0.088%
Others	9,085,974	2.13%	0.005-13.1	120,467	1.125%

For the nine months ended <u>September 30, 2005</u>					
SinoPac Securities	1,664,857	0.47%	0.002-4.82	14,395	0.2%
SPH	2,336,250	0.66%	0.3-5.95	13,769	0.2%
SinoPac Futures	206,756	0.06%	0.3-1.84	8,593	0.12%
SinoPac Securities (Cayman)	228,116	0.06%	1.75-3.45	620	0.01%
SinoPac Venture Capital	250,843	0.07%	0.3-1.75	1,637	0.02%
Others	2,954,826	0.86%	0.002-6.875	9,486	0.13%

## 3) Due from banks and other receivables

	<b>Ending Balance</b>		<b>% of Total</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Due from banks - FENB	\$ 37,539	\$ 77,417	0.59%	0.34%
Other receivables	253,189	101,438	0.68%	0.44%

4) Financial assets at fair value through profit or loss

	<u>Ending Balance</u>		<u>% of Total</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Structured instruments - SinoPac Securities	\$ -	\$ 146,600	-	1.03%
Beneficiary certificate				
Fuh-Hwa Yuli Bond Fund	206,188	100,000	0.71%	0.70%
Fuh-Hwa Small Capital Fund	32,934	118,861	0.11%	0.84%
Fuh-Hwa Digital Economy Fund	72,564	165,622	0.25%	1.16%
Fuh-Hwa Bond Fund	175,727	-	0.61%	-
Fuh-Hwa Olympic Global Fund	-	202,000	-	1.42%
Others	318,713	277,574	1.09%	1.94%

5) Guarantees

The Bank had provided guarantees on commercial papers issued by SinoPac Securities. The aggregate face amounts of commercial paper were as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
SinoPac Securities	<u>\$ 35,000</u>	<u>\$ 35,000</u>

Guarantees and credits on SPL, Wal Tech International and Grand Capital were collateralized by the following assets provided by SPL:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Properties - carrying amount	<u>\$ 1,097,374</u>	<u>\$ 1,106,966</u>

Guarantees and credits on SinoPac Securities were collateralized by the following assets provided by SinoPac Securities:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Properties and leased assets - carrying amount	\$ 1,165,727	\$ 1,176,119
Certificates of deposit	<u>730,000</u>	<u>830,000</u>
	<u>\$ 1,895,727</u>	<u>\$ 2,006,119</u>

Guarantees and credits on Fortune Investment were collateralized by the following assets provided by Fortune Investment:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Properties - carrying amount	\$ 40,064	\$ 40,064
Stocks - fair value	74,419	9,545

6) Held-to-maturity financial assets

The Bank have purchased beneficiary certificates - credit card receivables from AnShin Card Services. The maturity and fixed interest rate of the beneficiary certificates are February 20, 2009 and 3%, respectively, and the principal was as follows:

	<u>September 30</u>	
	<u>2006</u>	<u>2005</u>
Beneficiary certificates - credit card receivables - AnShin Card Services	\$ 80,000	\$ 80,000

7) Revenues and expenses

	<u>Amount</u>		<u>% of Total</u>	
	<u>For the Nine Months Ended</u>		<u>For the Nine</u>	
	<u>September 30</u>		<u>Months Ended</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Service fees	\$ 13,487	\$ 17,445	0.92%	1.16%
Project popularizing expense	194	297	0.02%	0.23%

8) Short-term bills and bonds sold under agreements to repurchase

	<u>Face Amount</u>		<u>Cost</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Fuh-Hwa Yuli Bond Fund	\$ 114,300	\$ 73,800	\$ 127,000	\$ 82,000
SPH	26,500	225,000	29,500	250,000
Fuh-Hwa Albatross Fund	-	70,200	-	78,000
Others	3,376	9,000	3,376	10,035

9) Lease

a) As a lessee

The Bank had leased certain office premises from related parties under several contracts for various periods ranging from 1 to 15 years, with rentals paid monthly. The related information was summarized as follows:

Lessor	<u>Rental Expenses</u>		Lease Term	Payment Frequency
	<u>For the Nine</u>			
	<u>Months Ended</u>			
	<u>2006</u>	<u>2005</u>		
SPL	\$ 53,235	\$ 47,803	February 2020	Rentals paid monthly
Ruentex Development	2,700	2,772	September 2010	Rentals paid monthly

b) As a lessor

Lessee	<u>Rental Income</u> <u>For the Nine</u> <u>Months Ended</u> <u>September 30</u>		Lease Term	Payment Frequency
	2006	2005		
SPL	\$ 3,573	\$ 1,522	June 2011	Rentals received monthly
SPH	2,878	-	May 2010	Rentals received monthly
SinoPac Call Center	1,944	1,944	October 2006	Rentals received monthly
SinoPac Securities	1,852	1,852	July 2011	Rentals received monthly
SinoPac Marketing Consulting	1,348	1,405	May 2007	Rentals received monthly
SinoPac Asset Management	545	186	June 2010	Rentals received monthly
AnShin Card Services	182	182	December 2006	Rentals received monthly
SinoPac Venture Capital	7	-	June 2010	Rentals received monthly
Wal Tech International	45	-	June 2011	Rentals received monthly

10) Professional advisory charges

The Bank had entered into several professional advisory contracts with its investees. The professional advisory charges paid for the nine months ended September 30, 2006 and 2005 amounted to \$67,530 and \$94,851, respectively.

11) Due from/to affiliates

As of September 30, 2006 and 2005, the Bank's receivables from AnShin Card Services amounted to \$33,920 and \$27,637, respectively.

As of September 30, 2006 and 2005, the Bank's estimated payables resulting from the adoption of the linked-tax system as of September 30, 2006 and 2005 amounted to \$245,723 and \$97,082, respectively.

12) Asset transactions

For the nine months ended September 30, 2005, the Bank purchased structured instruments from SinoPac Securities amounted to \$146,600.

13) Derivative financial instruments

	<u>September 30, 2006</u>		
	<u>Contract</u> <u>(Notional)</u> <u>Amount</u>	<u>Credit Risk</u>	<u>Fair Value</u>
Currency swap contracts			
SPH	\$ 1,500,000	\$ -	\$ (623)
Grand Capital	9,597	-	(6)
Interest rate swap contracts			
SPL	80,000	604	604

September 30, 2005

	<b>Contract (Notional) Amount</b>		<b>Credit Risk</b>		<b>Fair Value</b>
<u>FENB</u>					
Interest rate swap contracts	\$ 33,188	\$	-	\$	(49)
Currency swap contracts	547,206		63		50

For transactions between the Bank and related parties, the terms are similar to those transacted with unrelated parties except for the preferential interest rates offered to employees for savings and loans up to prescribed limits.

Under the Banking Law, except for government and consumer loans, credit extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

## 26. SIGNIFICANT CONTINGENCIES AND COMMITMENTS

In addition to those disclosed in Note 28, financial instruments, significant contingencies and commitments of the Bank, are summarized as follows:

a. Lease contract

The Bank leased certain office premises under several contracts for various periods ranging from 1 to 15 years, with rentals paid monthly, quarterly or semiannually. Rentals for the next five years are as follows:

<b>Year</b>	<b>Amount</b>
October 1 to December 31, 2006	\$ 71,704
2007	262,273
2008	206,944
2009	168,112
2010	121,473

Rentals for the years beyond 2011 amount to \$625,291, the present value of which is about \$519,785 as discounted at the Bank's one-year time deposit rate of 2.13% on October 1, 2006.

b. Equipment purchase contract

The Bank had entered into contracts to buy computer hardware and software for \$143,629, of which \$57,195 had already been paid as of September 30, 2006.

c. Interior decoration contract

The Bank had entered into interior decoration contracts for \$19,971, of which \$17,976 has already been paid as of September 30, 2006.

d. Short-term bills and bonds sold under agreements to repurchase

As of September 30, 2006, short-term bills and bonds with a total face amount of \$6,465,102 were sold under agreements to repurchase at \$6,871,930 between October 2006 and December 2006.

- e. Short-term bills and bonds purchased under agreements to resell

As of September 30, 2006, short-term bills and bonds with a total face amount of \$3,932,400 were purchased under agreements to resell at \$4,296,824 in October 2006 and December 2006.

- f. The Securities and Futures Investors Protection Center (SFIPC) is believed by investors to be filing a lawsuit against the Bank in the ground that Procomp Informatics Ltd. provided deposit with the Bank's Sungshan Branch and limited the usage as a condition for short-term loan to Addie International Limited granted by SPL and for helping Procomp Informatics Ltd. window-dressing its financial statements. As of June 29, 2005, the SFIPC filed additional lawsuit against the Bank, SPL and all other parties related to Procomp Informatics Ltd. Case for compensation in the amount of \$4,467,129. As a matter of fact, the Bank was authorized to engage in financing activities and did not help Procomp Informatics Ltd. window-dressing its the financial statements. According to the Bank attorney's opinion, the claims from SFIPC is without sufficient reason and the Bank does not need to compensate the investors for the damage.
- g. The SFIPC is believed by investors to be filing a lawsuit against the Bank in the ground that National Aerospace Fasteners Corporation provided an accounts receivable - factoring with the Bank's Tunpei Branch and recorded the substantially loan transaction as an accounts receivable financing activity to window-dress its financial position which the investors made their investing decision based on since the third quarter, 2002. As of April 21, 2006, the SFIPC files lawsuit against the Bank and all other parties for compensation in the amount of \$450,000. The Bank has entered a plea on such charges and the case is under trying in the count of first instance.

## 27. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balances were calculated by the daily average balances of interest-earning assets and interest-bearing liabilities.

	<b>For the Nine Months Ended September 30, 2006</b>	
	<b>Average Balance</b>	<b>Average Rate (%)</b>
<u>Interest-earning assets</u>		
Due from other banks	\$ 5,173,548	4.64
Call loans (placement)	40,459,283	3.44
Due from the Central Bank	8,704,071	1.50
Financial assets at fair value through profit or loss	28,755,197	2.40
Available-for-sale financial assets	85,444,241	1.64
Discounts and loans	298,685,596	3.72
Accounts receivable - factoring	9,963,973	5.35
Held-to-maturity investments	1,457,508	3.68
Securities purchased under agreement to resell	10,833,580	1.44
Other financial assets	1,328,014	6.36
<u>Interest-bearing liabilities</u>		
Due to other banks	3,784,284	2.16
Call loans (taken)	25,592,626	3.85
Demand deposits	53,489,576	1.87

(Continued)

**For the Nine Months  
Ended  
September 30, 2006**

	<b>Average Balance</b>	<b>Average Rate (%)</b>
Savings - demand deposits	\$ 79,225,914	0.48
Time deposits	164,067,109	2.58
Savings - time deposits	78,230,285	1.96
Negotiable certificates of deposit	21,654,903	1.51
Securities sold under agreement to repurchase	9,661,964	2.53
Bank debentures	35,832,801	1.30
Financial liabilities at fair value through profit or loss	472,796	2.36

(Concluded)

**For the Nine Months  
Ended  
September 30, 2005**

	<b>Average Balance</b>	<b>Average Rate (%)</b>
<u>Interest-earning assets</u>		
Due from other banks	\$ 4,998,839	2.79
Call loans (placement)	36,672,725	2.18
Due from the Central Bank	7,460,345	1.50
Securities purchased	81,148,648	1.53
Securities purchased under agreement to resell	17,909,358	1.20
Loans, discounts and bills purchased	275,894,515	3.34
Accounts receivable from factoring	11,992,827	4.17
Other long-term investments	1,085,411	2.91

Interest-bearing liabilities

Due to other banks	83,006	4.58
Call loans (taken)	32,475,627	2.49
Demand deposits	61,726,671	1.04
Savings - demand deposits	73,175,807	0.48
Time deposits	136,049,430	1.49
Savings - time deposits	68,914,385	1.58
Negotiable certificates of deposit	29,848,553	1.22
Securities sold under agreement to repurchase	16,662,874	1.26
Bank debentures	32,800,000	1.94

## 28. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments

	September 30			
	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 101,658,006	\$ 101,658,006	\$ 83,962,794	\$ 83,962,794
Financial assets at fair value through profit or loss	28,937,682	28,937,682	14,234,036	14,203,335
Available-for-sale financial assets	124,476,391	124,476,391	77,207,890	77,482,523
Discounts and loans	308,088,524	308,088,524	289,747,427	289,747,427
Held-to-maturity financial assets	985,264	984,983	2,161,213	2,146,254
Equity investment-equity method	8,533,085	8,533,085	8,842,842	8,842,842
Other financial assets	2,699,857	2,699,857	631,332	631,332
<u>Liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	511,615,246	511,615,246	419,737,709	419,737,709
Financial liabilities at fair value through profit or loss	3,078,942	3,078,942	1,269,835	1,269,835
Other financial liabilities	449,687	449,687	121,250	121,250
Other liabilities	396,627	396,627	965,662	965,662

Effective on January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments." The amount of the cumulative effect resulting from the change to new accounting principles refers to Note 3.

The gains (losses) on derivative financial instruments for the nine months ended September 30, 2006 and 2005 were as follows:

	Account	For the Nine Months Ended September 30	
		2006	2005
For hedging purposes:			
Cross-currency swap contracts			
- Realized	Interest revenue	\$ 92,777	\$ 202,959
	Interest expense	(517,845)	(314,027)
- Unrealized	Foreign exchange loss	(4,088)	-
	Income from derivative financial instruments transactions	387,205	-
Interest rate swap contracts			
- Realized	Interest revenue	29,070	35,694
	Interest expense	(121,913)	(52,424)
	Income from derivative financial instruments transactions	-	12,791
- Unrealized	Foreign exchange (loss) gain	(10,104)	28,357
	Loss on derivative financial instruments transactions	(176,317)	-

(Continued)

		<b>For the Nine Months Ended</b>	
		<b>September 30</b>	
<b>Account</b>		<b>2006</b>	<b>2005</b>
For the purposes of accommodating customers' needs or managing the Bank's exposures:			
Forward contracts			
- Realized	Interest revenue	\$ 216,272	\$ 190,041
	Interest expense	(61,391)	(53,571)
- Realized	Foreign exchange loss	(17,781)	(164,662)
- Unrealized	Foreign exchange gain (loss)	(180,478)	758,059
- Unrealized	(Loss) income from derivative financial instruments transactions	(26,385)	341
Forward rate agreements			
- Realized	Loss on derivative financial instruments transactions	-	(486)
- Unrealized	Income from derivative financial instruments transactions	-	486
Currency swap contracts			
- Realized	Interest revenue	2,515,012	1,478,383
	Interest expense	(1,715,721)	(1,223,271)
- Unrealized	Income from derivative financial instruments transactions	213	74,566
Swap contracts- foreign exchange rate			
- Realized	Income from derivative financial instruments transactions	1,039	-
Swap contracts- stock price			
- Realized	Income from derivative financial instruments transactions	3,313	-
Interest rate swap contracts			
- Realized	Interest revenue	1,113,708	462,278
	Interest expense	(1,138,346)	(502,108)
- Realized	Income from (loss on) derivative financial instruments transactions	(6,805)	28,857
- Unrealized	Income from derivative financial instruments transactions	515	6,568
Foreign-currency options contracts			
- Realized	Loss on derivative financial instruments transactions	(180,388)	(483,211)
	Foreign exchange gain	776,788	572,787
- Unrealized	Income from (loss on) derivative financial instruments transactions	101,571	(641,404)

(Continued)

		<b>For the Nine Months Ended September 30</b>	
<b>Account</b>		<b>2006</b>	<b>2005</b>
Interest rate futures contracts			
- Realized	Income from (loss on) derivative financial instruments transactions	\$ 28,257	\$ (1,506)
- Realized	Foreign exchange gain	1,126	-
- Unrealized	Income from derivative financial instruments transactions	2,093	671
Cross-currency swap contracts			
- Realized	Interest revenue	219,997	305,783
	Interest expense	(219,190)	(304,181)
- Unrealized	Loss on derivative financial instruments transactions	(303)	(2,480)
Credit default swap contracts			
- Realized	Income from (loss on) derivative financial instruments transactions	(7,550)	3,831
- Unrealized	Loss on derivative financial instruments transactions	(16,118)	-
Commodity-linked interest rate swap contracts			
- Realized	Income from (loss on) derivative financial instruments transactions	(699)	1,125

(Concluded)

b. Methods and assumptions applied in estimating the fair values disclosures for financial instruments are as follows:

- 1) The carrying amounts of cash and cash equivalent, due from the Central Bank and other banks, securities purchased under agreements to resell, receivable, call loans and due to banks, payables, securities sold under agreements to repurchase, and remittances approximate their fair values because of the short maturities of these instruments.
- 2) For financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and hedged derivative financial instruments, fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using available indirect data and appropriate valuation methodologies.
- 3) Discounts and loans, and deposits are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of nonperforming loans is based on the carrying amount, which is net of allowance for credit losses.
- 4) When unquoted equity instruments which the Bank does not have significant influence over the investees do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.
- 5) Forward contracts' and interest rate swap contracts' fair values are based on estimates using present value techniques. Options' fair value are based on estimates using Black Scholes model.

- 6) Fair value of forward contracts are estimated based on the forward rates provided by Reuters or the Associated Press.

Fair value of structured instruments are provided by the counter parties. All outstanding contracts are based on match basis and market risks will be offset.

Fair value of interest rate swap contracts and cross currency swap contracts are estimated based on the market quotation provided by Reuters.

- c. For the nine months ended September 30, 2006 and 2005, gains on valuation of financial assets and liabilities at fair value through profit or loss were \$203,885 and \$63,325, respectively.
- d. Interest revenue of financial assets and liabilities other than those at fair value through profit or loss amounted to \$15,613,439 and \$10,911,048, respectively, for the nine months ended September 30, 2006 and 2005. Interest expense of financial assets and liabilities other than those at fair value through profit or loss amounted to \$10,355,831 and \$6,552,359, respectively, for the nine months ended September 30, 2006 and 2005. Unrealized gains or losses on available-for-sale financial assets amounted to \$25,747 were charged to stockholders' equity for the nine months ended September 30, 2006.
- e. Commissions and fee revenues, net amounting to \$1,287,225, which is consisted of revenues of \$1,471,768 and charges of \$184,543 for the nine months ended September 30, 2006.
- f. Realized gain and gain on valuation of financial assets and liabilities at fair value through profit or loss were \$215,659 and \$45,272, respectively, for the nine months ended September 30, 2006.
- g. Financial risk information

1) Market risk

The Bank sets up risk managing indicators according to the characters of the products to achieve the goal of risk management. The Bank evaluates market risk exposure limits approved by the board of directors and informs related units when over the limits timely.

Fair value of financial assets and financial liabilities determined based upon quoted market prices or estimates summarized as follows:

	<u>Quoted Market Prices</u>	<u>Fair Value Based on Estimates</u>
	<b>September 30, 2006</b>	
<u>Financial assets</u>		
Financial assets at fair value through profit or loss	\$ 21,563,275	\$ 7,374,407
Available-for-sale financial assets	123,462,148	1,014,243
Held-to-maturity investments	905,264	80,000
Other financial assets	203,728	2,496,129
<u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss	2,396,795	682,147

The Bank establishes various specialist committees in head office and oversea branches to perform the role of implementing the risk management policies and procedures. Each sub-risk management team reviews limits on monitoring and managing risk exposures under the respective supervision and reports to head office management team.

Market risk reports which include the monitor of outstanding position limitation of loss and quantitative measures of risk indicators are provided to risk management sector to manage risk exposure, risk premium and capital allocation. The indicators are calculated by the valuation models. The Bank uses the value-at-risk approach and Monte Carlo simulation method to derive quantitative measures for the trading book market risks under normal condition since 2005.

The Bank formally document in writing its intention to apply hedge accounting and follow the requirement of related accounting standards. Risk management sector should assess the effectiveness of the hedge relationship periodically.

## 2) Credit risk

The Bank is exposed to credit risk in the event of default on contracts by counter-parties. The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' credit worthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of September 30, 2006 and 2005, ratios of secured loans to total loans both were 72% and 70%, respectively. Ratio of secured financial guarantees and standby letters of credits were from 20.2% to 19.2%. Collaterals held vary but may include cash, inventories, marketable securities, and other properties. When the customers default, the Bank will, as required by circumstances, foreclose the collaterals or execute other rights arising out of the guarantees given. Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash demands. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

The maximum credit exposure of the financial instruments (except for fair value of collaterals) held by the Bank equaled the book value except which analysed as follows:

Items	September 30			
	2006		2005	
	Carrying Amount	Maximum Credit Exposure	Carrying Amount	Maximum Credit Exposure
Off-balance-sheet credit risk				
Financial guarantees and standby letter of credit	\$ -	\$ 11,714,870	\$ -	\$ 13,682,460
Undrawn loan commitments	-	1,929,689	-	3,972,618

Effective on January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments." The amount of the cumulative effect resulting from the change to new accounting principles refers to Note. 3.

The maximum exposure of counterparties presented above were evaluations on off-balance sheet credit risk contracts with positive amounts on the balance sheet date. Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank maintains a diversified portfolio, limits its exposure to any one geographic region, country or individual creditor and monitors the exposure on a continuous basis. On September 30, 2006 and 2005, the Bank's most significant concentrations of credit risk were summarized as follows:

Credit Risk Profile by Counterparty	September 30			
	2006		2005	
	Carrying Amount	Maximum Credit Exposure	Carrying Amount	Maximum Credit Exposure
Private sector	\$ 87,835,542	\$ 87,835,542	\$ 89,364,672	\$ 89,364,672
Consumer	221,705,747	221,705,747	199,286,267	199,286,267
Government	668,474	668,474	2,645,567	2,645,567
	<u>\$ 310,209,763</u>	<u>\$ 310,209,763</u>	<u>\$ 291,296,506</u>	<u>\$ 291,296,506</u>

Credit Risk Profile by Industry Sector	September 30			
	2006		2005	
	Carrying Amount	Maximum Credit Exposure	Carrying Amount	Maximum Credit Exposure
Electricity industry	\$ 23,981,885	\$ 23,981,885	\$ 25,489,843	\$ 25,489,843
Wholesale trade	9,858,496	9,858,496	10,353,043	10,353,043
Insurance and real estate activities	6,627,593	6,627,593	3,862,608	3,862,608
	<u>\$ 40,467,974</u>	<u>\$ 40,467,974</u>	<u>\$ 39,705,494</u>	<u>\$ 39,705,494</u>

Credit Risk Profile by Region	September 30			
	2006		2005	
	Carrying Amount	Maximum Credit Exposure	Carrying Amount	Maximum Credit Exposure
Domestic area	\$ 296,688,229	\$ 296,688,229	\$ 280,417,517	\$ 280,417,517
Asia	7,600,989	7,600,989	4,064,435	4,064,435
North America	4,261,334	4,261,334	4,323,567	4,323,567
	<u>\$ 308,550,552</u>	<u>\$ 308,550,552</u>	<u>\$ 288,805,519</u>	<u>\$ 288,805,519</u>

### 3) Liquidity risk

As of September 30, 2006 and 2005, the liquidity reserve ratio was 38.55% and 28.63%, respectively. The Bank has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of the derivative financial instruments held by the Bank fail to liquidate quickly with minimal loss in value is low.

The management policy of the Bank is to match in the contractual maturity profile and interest rate of its assets and liabilities. As a result of the uncertainty, the maturities and interest rates of assets and liabilities usually didn't fully match. The gap may arise potential gain or loss.

The Bank applied appropriate way to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

<b>September 30, 2006</b>							
	<b>Due in One Month</b>	<b>Due Between One Month and Three Months</b>	<b>Due Between Three Months and Six Months</b>	<b>Due Between Six Months and One Year</b>	<b>Due Between One Year and Seven Years</b>	<b>Due After Seven Years</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	\$ 9,751,063	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,751,063
Due from the Central Bank and other banks	44,749,379	2,579,191	2,978,767	330,975	-	-	50,638,312
Financial assets at fair value through profit or loss	27,024,697	122,015	194,090	71,639	1,525,241	-	28,937,682
Accounts, interest and other receivables	18,451,583	13,111,418	3,678,265	1,094,792	695,950	-	37,032,008
Securities purchased under agreements to resell	3,938,704	350,000	-	-	-	-	4,288,704
Discounts and loans	27,716,290	23,670,580	13,445,340	21,635,293	40,631,659	182,953,067	310,052,229
Non-active market debt instruments	-	-	-	-	1,305,322	529,568	1,834,890
Available-for-sale financial assets	42,739,989	18,000,000	33,476,333	27,491,808	2,768,261	-	124,476,391
Held-to-maturity investments	-	-	165,490	-	488,799	330,975	985,264
Hedged derivative financial assets	-	-	-	-	488,317	-	488,317
	<u>174,371,705</u>	<u>57,833,204</u>	<u>53,938,285</u>	<u>50,624,507</u>	<u>47,903,549</u>	<u>183,813,610</u>	<u>568,484,860</u>
<b>Liabilities</b>							
Call loans and due to banks	50,054,090	3,598,785	762,287	1,901,133	-	-	56,316,295
Securities sold under agreements to repurchase	6,443,780	410,084	-	-	-	-	6,853,864
Payables	11,342,824	7,162,007	2,076,217	1,104,074	336,249	-	22,021,371
Financial liabilities at fair value through profit or loss	2,670,149	157,201	182,177	69,028	387	-	3,078,942
Deposits and remittance	111,653,977	94,890,521	88,622,402	92,689,943	38,680,768	-	426,537,611
Bank debentures	-	5,000,000	-	-	31,010,888	-	36,010,888
Hedge derivative financial liabilities	-	-	-	-	277,429	-	277,429
	<u>182,164,820</u>	<u>111,218,598</u>	<u>91,643,083</u>	<u>95,764,178</u>	<u>70,305,721</u>	<u>-</u>	<u>551,096,400</u>
Net liquidity gap	<u>\$ (7,793,115)</u>	<u>\$ (53,385,394)</u>	<u>\$ (37,704,798)</u>	<u>\$ (45,139,671)</u>	<u>\$ (22,402,172)</u>	<u>\$ 183,813,610</u>	<u>\$ 17,388,460</u>

<b>September 30, 2005</b>				
	<b>Due in One Year</b>	<b>Due Between One Year and Five Years</b>	<b>Due After Five Years</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalent	\$ 6,800,913	\$ -	\$ -	\$ 6,800,913
Due from the Central Bank and other banks	48,901,501	-	-	48,901,501
Securities purchased	88,013,614	-	-	88,013,614
Receivables	24,912,544	-	-	24,912,544
Securities purchased under agreements to resell	5,390,327	-	-	5,390,327
Loans, discounts and bills purchased (excluding nonperforming loans)	88,810,908	30,256,536	169,313,000	288,380,444
Other long-term investments	-	1,094,300	-	1,094,300
	<u>\$ 262,829,807</u>	<u>\$ 31,350,836</u>	<u>\$ 169,313,000</u>	<u>\$ 463,493,643</u>
<b>Liabilities</b>				
Call loans and due to banks	\$ 42,232,361	\$ -	\$ -	\$ 42,232,361
Securities sold under agreements to repurchase	8,933,241	-	-	8,933,241
Payables	12,406,976	-	-	12,406,976
Deposits and remittances	342,543,952	13,970,589	-	356,514,541
Bank debentures	-	31,800,000	1,000,000	32,800,000
	<u>\$ 406,116,530</u>	<u>\$ 45,770,589</u>	<u>\$ 1,000,000</u>	<u>\$ 452,887,119</u>

4) Cash flow risk and fair value risk arising from interest rate fluctuations

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest risk. The risk is considered to be material to the Bank, and the Bank enters into interest rate swap contracts to manage the risk.

h. Fair value hedge

The Bank enters into interest rate swap contracts and cross currency swap contracts to hedge the risk the interest rate fluctuation of the bank debenture.

Hedged Items	Hedging Instruments	September 30			
		2006		2005	
		Notion Amount	Fair Value	Notion Amount	Fair Value
Bank debentures	Interest rate swap	\$ 11,200,000	\$ (176,317)	\$ 17,460,320	\$ 172,163
	Cross currency swap	14,300,000	387,205	14,300,000	785,518
		<u>\$ 25,500,000</u>	<u>\$ 210,888</u>	<u>\$ 31,760,320</u>	<u>\$ 957,681</u>

## 29. MARKET RISK CONTROL AND HEDGE STRATEGY

The Bank documents the risk management policies, including overall operating strategies and risks control philosophy. The Bank's overall risk management policies are to minimize the possibility of potential unfavorable factors. The board of directors approves the documentation of overall risk management policies and specific risk management policies; including exchange rate risk, interest rate risk, credit risk, derivative instruments transactions and managements. The board of directors review the policies annually, and review the operation to make sure the Bank's policies are executed properly.

## 30. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

a. Asset quality

(In Thousands of New Taiwan Dollars, %)

Item	September 30, 2006		September 30, 2005	
	Amount	Overdue Loans/ Outstanding Loan Balance	Amount	Overdue Loans/ Outstanding Loan Balance
Overdue loans - class A	\$ 3,665,925	1.18%	\$ 2,759,283	0.95%
Overdue loans - class B	445,144	0.14%	200,049	0.07%
Total overdue loans	4,111,069	1.33%	2,959,332	1.02%
Overdue loans with debt negotiation exempted from reporting as a non-performing loan	498	-	-	-
Overdue receivables with debt negotiation exempted from reporting as a non-performing loan	-	-	-	-

Note 1: Overdue loans represent the amounts of reported overdue loans pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrued Loans" issued by the MOF.

Note 2: Overdue loans - class A and class B represent the amounts of reported overdue loans as required by the Banking Bureau letters dated April 19, 2005 (Ref. No. 0941000251).

Note 3: Overdue loans ratio = Overdue loans/Outstanding loans balance.

Note 4: Overdue loans and receivables with debt negotiated terms which have been performed are exempted from reporting as non-performing loan under the requirement issued by the Banking Bureau dated April 25, 2006 (Ref. No. 09510001270).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

	September 30, 2006		September 30, 2005	
Credit extensions to interested parties	4,972,975		4,053,194	
Ratios of credit extensions to interested parties	1.39		1.20	
Ratios of credit extensions secured by pledged stocks	0.13		0.12	
Industry concentration	Industry	Percentage	Industry	Percentage
	Consumer	79.56%	Consumer	76.76%
	Manufacturing	9.07%	Manufacturing	9.58%
	Wholesaling and retailing	3.58%	Wholesaling and retailing	4.64%

Note: The interest parties mentioned above is regulated in the banking Law Article 33-1.

Note 1: Consist of loans, discounts and bills purchased (including import and export bill negotiations), acceptances and guarantees.

Note 2: Ratio of credit extensions to interested parties = Credit extensions to interested parties/Total credit extensions.

Note 3: Ratio of credit extensions secured by pledged stocks = Credit extensions secured by pledged stocks/Total credit extensions.

Note 4: Consist of the following industries required by the Central Bank: Agriculture, forestry, fishing and grazing; mining and soil excavation; manufacturing; utility and gas; construction; wholesale, retail, food and beverage; shipping, storage and communications; finance, insurance and real estate; general services and other.

c. Interest rate sensitivity information

**Interest Rate Sensitivity (New Taiwan Dollars)  
September 30, 2006**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-rate sensitive assets	\$ 328,500,283	\$ 39,025,857	\$ 36,063,070	\$ 14,156,210	\$ 417,745,420
Interest-rate sensitive liabilities	173,252,555	141,269,031	42,134,416	16,601,508	373,257,510
Interest-rate-sensitive gap	155,247,728	(102,243,174)	(6,071,346)	(2,445,298)	44,487,910
Net worth					28,909,869
Ratio of interest-rate sensitive assets to liabilities					111.92%
Ratio of interest-rate sensitive gap to net worth					153.88%

Note 1: The above amounts included only New Taiwan dollar amounts held by the onshore branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities are affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (in New Taiwan dollars).

**Interest Rate Sensitivity (USD)**  
**September 30, 2006**

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-rate sensitive assets	\$ 2,393,624	\$ 281,004	\$ 226,593	\$ 175,788	\$ 3,077,009
Interest-rate sensitive liabilities	2,647,699	1,202,004	227,831	431,451	4,508,985
Interest-rate-sensitive gap	(254,075)	(921,000)	(1,238)	(255,663)	(1,431,976)
Net worth					5,890
Ratio of interest-rate sensitive assets to liabilities					68.24%
Ratio of interest-rate sensitive gap to net worth					(24,311.99%)

Note 1: The above amounts include only USD amounts held by the onshore branches, OBU and offshore branches of the Bank, excludes contingent assets and contingent liabilities.

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities are affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (in U.S. dollars).

d. Profitability

(%)

Items		For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2005
Return on total assets	Before income tax	0.60	0.63
	After income tax	0.52	0.53
Return on net worth	Before income tax	11.73	10.76
	After income tax	10.06	9.06
Profit margin		35.96	34.02

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax represents income for the nine months ended September 30, 2006 and 2005.

e. Maturity analysis of asset and liabilities

**Maturity Analysis of Asset and Liabilities (In New Taiwan Dollars)  
September 30, 2006**

(In Thousands of New Taiwan Dollars)

	Total	The Amount of Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Main capital inflow on maturity	\$536,598,978	\$132,525,277	\$ 48,625,437	\$ 53,644,148	\$ 58,570,238	\$243,233,878
Main capital outflow on maturity	538,080,486	117,250,494	92,898,520	105,551,668	114,709,716	107,670,088
Gap	(1,481,508)	15,274,783	(44,273,083)	(51,907,520)	(56,139,478)	135,563,790

Note: The above amounts included only New Taiwan dollar amounts held in the onshore branches of the Bank (i.e. excludes foreign currency).

**Maturity Analysis of Assets and Liabilities (In U.S. Dollars)  
September 30, 2006**

(In Thousands of U.S. Dollars)

	Total	The Amount of Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Capital inflow on maturity	\$ 7,598,204	\$ 2,419,607	\$ 1,883,705	\$ 1,754,822	\$ 1,401,707	\$ 138,363
Capital outflow on maturity	7,666,957	3,112,642	1,698,388	1,174,457	1,246,975	434,495
Gap	(68,753)	(693,035)	185,317	580,365	154,732	(296,132)

Note 1: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Note 2: If the overseas assets amounting to at least 10% of the total assets, there should be additional disclosures.

September 30, 2005

(In Millions of New Taiwan Dollars)

	Total	The Amount of Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Assets	\$ 453,750	\$ 120,797	\$ 49,426	\$ 29,466	\$ 26,857	\$ 227,204
Liabilities	457,615	98,159	89,869	47,986	64,560	157,041
Gap	(3,865)	22,638	(40,443)	(18,520)	(37,703)	70,163
Accumulated gap	(3,865)	22,638	(17,805)	(36,325)	(74,028)	(3,865)

Note: The above amounts included only New Taiwan dollar amounts held in the onshore branches of the Bank (i.e. excludes foreign currency).

### 31. STATEMENT OF CAPITAL ADEQUACY

(%)

	June 30, 2006	June 30, 2005
Net eligible capital	\$ 37,562,670	\$ 32,867,401
Total risk-weighted assets	293,844,100	282,579,747
Capital adequacy ratios	12.78	11.63
Ratios of tier 1 capital to risk-weighted assets	9.63	10.00
Ratios of tier 2 capital to risk-weighted assets	3.24	2.91
Ratios of tier 3 capital to risk-weighted assets	-	-
Ratios of the deduction from capital to risk-weighted assets	(0.09)	(1.28)
Ratios of common stockholders' equity to total assets	5.39	5.75

Note: Capital adequacy ratio = Eligible capital/Risk-weighted assets. Pursuant to the Banking Law and related regulations, the capital adequacy ratio should be computed at the end of June and December, respectively, thus the aforementioned figures were the capital adequacy ratios as of June 30, 2006 and 2005.

### 32. INFORMATION REGARDING THE TRUST BUSINESS UNDER THE TRUST LAW

#### a. Balance sheets and trust properties of trust accounts

#### Balance Sheets of Trust Accounts September 30, 2006 and 2005

Trust Assets	2006	2005	Trust Liabilities	2006	2005
Bank deposits	\$ 1,470,677	\$ 933,140	Payables	\$ 1,457	\$ 602
Short-term investments	66,599,185	54,698,702	Trust capital	72,715,930	58,888,082
Receivables	83,328	1,629	Cumulative earnings	<u>1,490,101</u>	<u>1,311,255</u>
Prepayments	147	39			
Properties	5,720,823	4,023,811			
Net asset value of collective investment trust fund	<u>333,328</u>	<u>542,618</u>			
Total trust assets	<u>\$ 74,207,488</u>	<u>\$ 60,199,939</u>	Total trust liabilities	<u>\$ 74,207,488</u>	<u>\$ 60,199,939</u>

**Trust Properties of Trust Accounts  
September 30, 2006 and 2005**

<b>Investment Portfolio</b>	<b>2006</b>	<b>2005</b>
Bank deposits	\$ 1,470,677	\$ 933,140
Short-term investments		
Bonds	14,296,695	9,782,367
Common stock	4,840,965	4,480,954
Funds	47,445,871	40,435,381
Beneficiary certificates	15,654	-
	<u>66,599,185</u>	<u>54,698,702</u>
Receivables	<u>83,328</u>	<u>1,629</u>
Prepayments	<u>147</u>	<u>39</u>
Properties		
Land	4,368,844	3,055,430
Buildings	1,827	-
Construction in process	<u>1,350,152</u>	<u>968,381</u>
	<u>5,720,823</u>	<u>4,023,811</u>
Net asset value of collective investment trust fund	<u>333,328</u>	<u>542,618</u>
 Total	 <u>\$ 74,207,488</u>	 <u>\$ 60,199,939</u>

b. The contents of operations of the trust business under the Trust Law: Please refer to Note 1.

**33. INFORMATION RELATED TO BORROWERS, GUARANTORS AND COLLATERAL PROVIDERS AS INTEREST PARTIES**

September 30, 2006

Category	Account Volume	Amounts	Situation of Exercise	
			Normal	Overdue
Consumer loans (Note 1)	253	\$ 238,086	\$ -	-
Loans for employees' house mortgage	235	581,429	-	-
Other borrowers (Note 2)	627	3,944,049	-	-
Guarantees	465	1,862,748	-	-
Collateral providers	1,046	8,081,770	-	-

September 30, 2005

Category	Account Volume	Amounts	Possibility of Loss (Note 3)
Consumer loans (Note 1)	332	\$ 248,730	None
Loans for employees' house mortgage	238	582,368	None
Other borrowers (Note 2)	648	3,841,118	None
Guarantees	518	1,846,612	None
Collateral providers	1,110	6,855,297	None

Note 1: Consumer loans were regulated in the Banking Law Article 32.

Note 2: Except for consumer loans and loans for employees' house mortgage, the credits that borrowers as interest parties.

Note 3: The interest parties mentioned above is regulated in the banking Law Article 33-1.

### 34. CROSS SELLING INFORMATION

For the nine months ended September 30, 2006, the Bank charged SinoPac Securities for \$548 as marketing and opening accounts under cross selling business.

For the nine months ended September 30, 2005, the Bank shared the operating equipment and building with SinoPac Securities under cross selling business.

<b>Account</b>	<b>The Bank</b>	<b>SinoPac Securities</b>	<b>Total</b>	<b>Allocation Method</b>
Rentals	\$1,800	\$1,170	\$2,970	Allocated by the actual usage of floor square

In February 2003, the Bank had contracts with SinoPac Securities, SPLIA and SPPIA, respectively, for cross selling business. The contracts refer to the rules of promoting cross selling business and how to allocate the related expenses to sites, personnel, and equipments and how to calculate the related compensation. For the nine months ended September 30, 2006, the Bank charged SPPIA for \$2,914 as service fees, and charged SPLIA for \$2,889 as incentive rewards and for \$6,239 as promoting rewards, respectively, under cross selling business. For the nine months ended September 30, 2005, the Bank charged SPPIA for \$2,854 as service fees and charged SPLIA for \$33,563 as promoting rewards, respectively, under cross selling business.

### 35. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the SFB for the Bank and investees:

- 1) Financing provided: Table 1;
- 2) Endorsement/guarantee provided: Table 2;
- 3) Marketable securities held: Table 3;
- 4) Marketable securities acquired and disposed of, at costs or prices of at least NT\$300 million or 10% of the issued capital: None;
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 10% of the issued capital: None;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 10% of the issued capital: None;
- 7) Financial asset securitization: Please refer to Note 10;
- 8) Allowance for service fees to related-parties amounting to at least NT\$5 million: None;
- 9) Receivables from related parties amounting to at least NT\$300 million or 10% of the issued capital: None;
- 10) Sale of nonperforming loans amounting to at least NT\$5 billion: None;
- 11) Other significant transactions which may affect the decisions of users of financial reports: None;
- 12) Names, locations, and other information of investees on which the Bank exercises significant influence: Table 4;

- 13) Derivative financial transactions: Except the disclosure in other footnotes, the derivative financial instruments of the Bank are disclosed in Notes 6 and 28, and the derivative financial instrument transactions of Far East National Bank (“FENB”, a wholly owned subsidiary of SinoPac Bancorp, which is a wholly owned subsidiary of the Bank) are summarized below:

FENB engages in derivative financial instrument transactions mainly for accommodating customers’ needs and managing its exposure positions.

FENB is exposed to credit risk if the counter-parties default on the contracts on maturity date. FENB enters into contracts with customers that have satisfied its credit approval process and have provided the necessary collateral. Transactions are made within each customer’s credit line; guarantee deposits may be required, depending on the customer’s credit standing. Transactions with other banks are made within the trading limit set for each bank based on the bank’s credit rating and its worldwide ranking. The associated credit risk has been considered in the evaluation of provision for credit losses.

As of September 30, 2005, the contract amounts (notional amounts), credit risks and fair values of outstanding contracts were as follows:

<b>Financial Instruments</b>	<b>September 30, 2005</b>		
	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
For the purpose of accommodating customers’ needs or managing FENB’s exposures:			
Forward contracts			
- Buy	\$ 497,820	\$ 12,446	\$ (10,940)
- Sell	10,096	424	103

The fair value of each contract is determined on the basis of quotations from Reuters or the Telerate Information System.

The notional amounts of derivative contracts are used solely for the purpose of calculating receivables and payables to all contract parties. Thus, the notional amounts do not represent the actual cash inflows or outflows. The possibility that derivative financial instruments held or issued by FENB cannot be sold at reasonable prices is remote; thus, no significant cash demand is expected.

- b. Information related to investment in Mainland China: None.

## BANK SINOPAC AND INVESTEES

FINANCING PROVIDED  
NINE MONTHS ENDED SEPTEMBER 30, 2006  
(In Thousands of New Taiwan Dollars)

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate (%)	Financing Type	Transaction Amount	Financing Reasons	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limits
											Item	Value		
1	SinoPac Leasing Corporation	Wal-Tech International Corporation	Other receivable - related parties	\$ 184,000	\$ 170,000	2.25%-2.40%	Short-term financing	\$ -	Repay of borrowings	\$ 850	-	\$ -	\$ 300,000 (Note 1)	\$ 913,319 (Note 2)

Note 1: According to the Operational Procedures for Making Loans to Others, the financing limit for the borrowing company is 30% of the reviewed net asset value (\$2,283,297) of SinoPac Leasing Corporation as of September 30, 2006. The maximum amount passed by the board of directors is \$300,000.

Note 2: According to the Operational Procedures for Making Loans to Others, the financing company's financing amount limits are 40% of the reviewed net asset value (\$2,283,297) of SinoPac Leasing Corporation as of September 30, 2006.

## BANK SINOPAC AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED  
NINE MONTHS ENDED SEPTEMBER 30, 2006  
(In Thousands of New Taiwan Dollars)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Individual Endorsement/Guarantee Amounts	Maximum Balance for the Period	Ending Balance	Endorsement/Guarantee Amount Collateralized by Properties	Ratio of Accumulated Amount of Endorsement/Guarantee to Net Asset Value of the Latest Financial Statement (Note 4)	Maximum Endorsement/Guarantee Amounts Allowable
		Name	Nature of Relationship						
1	SinoPac Leasing Corporation	Grand Capital International Limited	Subsidiary	(Note 3)	\$ 3,515,888	\$ 3,184,798	-	139.48%	(Note 5)
		Wal Tech International Corporation	Affiliate	(Note 3)	20,000	17,000	-	0.74%	(Note 5)

Note 1: Foreign-currency amounts were translated to New Taiwan dollars at the exchange rate as of September 29, 2006.

Note 2: The reviewed net asset value of SinoPac Leasing Corporation as of September 30, 2006 is \$2,283,297.

Note 3: The limit on individual endorsement or guarantee amounts is up to 200% of the net asset value (Note 4) of the Corporation. As of September 30, 2006, the limit was \$4,566,594. But no limit applied on any subsidiary of the Corporation.

Note 4: The net asset value of SinoPac Leasing Corporation was based on its reviewed financial statements as of September 30, 2006.

Note 5: The maximum amount of endorsement or guarantee amounts is up to 500% of the net asset value (Note 4) of the Corporation. As of September 30, 2006, the limit was \$11,416,486. But no limit applied on any subsidiary of the Corporation.

## BANK SINOPAC AND INVESTEEES

## MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2006

(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statement Account	September 30, 2006				Note	
				Shares/Units/ Face Amount (In Thousand)	Carrying Amount (Note 1)	Percentage of Ownership	Market Value or Net Asset Value (Note 1)		
SinoPac Bancorp	<u>Stock</u> Far East National Bank	Subsidiary	Equity investments - equity method	180	\$ 6,499,806	100.00%	\$ 6,499,806	Note 3	
	SinoPac Financial Service (USA) Ltd.	Subsidiary	Equity investments - equity method	2.5	27,976	100.00%	27,976	Note 3	
Far East Capital Corporation	<u>Stock (common stock)</u> PCRS Capital Partners, LLC	-	Unquoted equity investments	-	1,363	4.00%	1,363	Note 5	
	TVIA, Inc.	-	Unquoted equity investments	33	1,522	0.20%	1,522	Note 5	
	Metropolos Digital	-	Unquoted equity investments	1,257	-	8.00%	-	Note 5	
	<u>Stock (preferred stock)</u> AgraQuest, Inc.	-	Unquoted equity investments	100	897	0.80%	897	Note 5	
	Silicon Motion, Inc.	-	Unquoted equity investments	11	6,032	0.10%	6,302	Note 5	
	Zone Reactor, Inc.	-	Unquoted equity investments	23	1,115	1.50%	1,115	Note 5	
	iPhysician Net, Inc.	-	Unquoted equity investments	115	-	0.30%	-	Note 5	
	Softknot Corporation	-	Unquoted equity investments	250	-	2.00%	-	Note 5	
	SinoPac Leasing Corporation	<u>Stock</u> Grand Capital International Limited	Subsidiary	Equity investments - equity method	29,900	664,673	100.00%	664,673	Note 4
		<u>Fund</u> SinoPac Global Fixed Income Portfolio Fund	Affiliate	Trading financial assets - current	10,000	100,809	NA	100,809	Note 6
SinoPac Capital Limited (Hong Kong)	<u>Stock</u> SinoPac Capital (B.V.I.) Ltd.	Subsidiary	Equity investments - equity method	4,450	146,580	100.00%	184,788	Note 3	
	SinoPac Insurance Brokers Ltd.	Subsidiary	Equity investments - equity method	100	1,274	100.00%	3,235	Note 3	
	HC-shares	-	Trading financial assets	7,998	53,351	1.67%	61,160	Note 2	
	Suga International	-	Trading financial assets	5,674	34,884	2.49%	12,293	Note 2	
	ZZNode	-	Trading financial assets	12,004	30,055	3.00%	19,379	Note 2	
	Norstar	-	Trading financial assets	6,908	57,036	0.55%	76,009	Note 2	
	Hans Energy	-	Trading financial assets	21,000	49,081	0.80%	37,024	Note 2	
	TPV	-	Trading financial assets	620	18,142	0.03%	19,491	Note 2	
	FIH	-	Trading financial assets	243	16,393	0.00%	24,776	Note 2	
	China-Metal	-	Trading financial assets	300	1,810	0.03%	3,505	Note 2	
	Wealthmark	-	Trading financial assets	15,327	35,161	4.62%	36,463	Note 2	
Magna Chip	-	Available-for-sale financial assets	15.577663	66,196	-	66,196	Note 2		

(Continued)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statement Account	September 30, 2006				Note
				Shares/Units/ Face Amount (In Thousand)	Carrying Amount (Note 1)	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
SinoPac Capital (B.V.I.) Ltd.	Bestfield Enterprises Ltd.	-	Financial assets at fair value through profit or loss	38	\$ 49,647	-	\$ 54,407	Note 2
	Ferro China Ltd.	-	Financial assets at fair value through profit or loss	2,300	33,586	-	50,969	Note 2
	<u>Fund</u> China Enterprise Capital	-	Available-for-sale financial assets	20	33,098	-	33,098	Note 5
	<u>Stock</u> Shanghai International Asset Management (Hong Kong) Co., Ltd.	Subsidiary	Equity investments - equity method	4,800	37,350	60.00%	23,102	Note 3
	Bank of China	-	Trading financial assets	7	89	-	100	Note 2
	Pinnacle Investment Management Ltd.	Subsidiary	Equity investments - equity method	200	6,620	100.00%	3,765	Note 3
	RSP Information Service Company Limited	Subsidiary	Equity investments - equity method	1,000	4,243	100.00%	1,769	Note 3

Note 1: Foreign-currency amounts were translated to New Taiwan dollars at the exchange rate as of the balance sheet date.

Note 2: Market prices of listed and GreTai Securities Market stocks were determined by average daily closing prices in September 2006.

Note 3: Net asset values were based on the investees' unaudited or unreviewed financial statements for the latest period.

Note 4: Net asset values were based on the investees' audited or reviewed financial statements for the latest period.

Note 5: Net asset values were based on the carrying amounts.

Note 6: Market prices were determined at the closing prices or NAV as of September 28, 2006.

(Concluded)

## BANK SINOPAC AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006  
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2006			Net Income (Loss) of the Investee (Note 2)	Investment Gains (Loss) (Note 2)	Note
				September 30, 2006 (Note 1)	September 30, 2005 (Note 1)	Shares (Thousand)	Percentage of Ownership (%)	Carrying Amount (Note 2)			
Bank SinoPac	SinoPac Bancorp	California	Stock holding	US\$ 112,306	US\$ 112,306	20	100.00	\$ 6,287,326	\$ 432,435	\$ 431,887	Subsidiary
	SinoPac Leasing Corporation	Taipei	Leasing and installment sales	999,940	999,940	176,689.62	99.7683	1,230,278	142,073	117,637	Subsidiary
	SinoPac Capital Limited	Hong Kong	Financial advisory	HK\$ 229,998	HK\$ 229,998	229,998	99.9991	1,013,105	116,597	123,916	Subsidiary
	SinoPac Financial Consulting Co., Ltd.	Taipei	Investment advisory and business management advisory	\$ 1,940	\$ 1,940	194	97.00	2,376	125	121	Subsidiary
SinoPac Bancorp	Far East National Bank SinoPac Financial Service (USA) Ltd.	California	Commercial bank	US\$ 112,714	US\$ 112,714	180	100.00	6,499,806	462,269	-	Affiliate
		California	Securities brokerage	US\$ 25	US\$ 25	2.5	100.00	27,976	(21,263)	-	Affiliate
Far East National Bank	Far East Capital Corporation	California	Investment bank	US\$ 3,500	US\$ 3,500	350	100.00	58,865	2,080	-	Affiliate
SinoPac Leasing Corporation	Grand Capital International Limited	British Virgin Islands	Leasing and installment sales	US\$ 29,900	US\$ 29,900	29,900	100.00	664,673	110,863	-	Affiliate
SinoPac Capital Limited (Hong Kong)	SinoPac Capital (B.V.I.) Ltd. SinoPac Insurance Brokers Ltd.	British Virgin Islands	Financial advisory	US\$ 4,450	US\$ 4,450	4,450	100.00	146,580	9,824	-	Affiliate
		Hong Kong	Insurance brokerage	HK\$ 300	HK\$ 300	100	100.00	1,274	1,368	-	Affiliate
SinoPac Capital (B.V.I.) Ltd.	Shanghai International Asset Management (Hong Kong) Co., Ltd. Pinnacle Investment Management Ltd. RSP Information Service Company Limited	Hong Kong	Asset management	HK\$ 10,000	HK\$ 10,000	4,800	60.00	37,350	(1,326)	-	Affiliate
		Hong Kong	Asset management, trust and consulting	US\$ 1,560	US\$ 1,560	200	100.00	6,620	16	-	Affiliate
		Hong Kong	General trading and providing internet - based service	HK\$ 1,000	HK\$ 1,000	1,000	100.00	4,243	(299)	-	Affiliate

Note 1: The original investment amounts were expressed in respective foreign currencies denominated.

Note 2: Foreign-currency amounts were translated at the exchange rate as of the balance sheet date, except for foreign-currency-denominated income and expenses, which were translated to New Taiwan dollars at the average exchange rate for the year ended September 30, 2006.